

Bonding: Price and Yield

Two concepts you must understand before you invest in bonds are price and yield. **Price** is what you pay for the bond. **Yield** is how much you get back.

Understanding Price

Every bond has a **face value**—usually \$1,000 in the case of Treasury and corporate bonds. A bond selling for 100% of face value is selling at “par.” But bond prices fluctuate, depending on what is happening in the bond market on a given day and the financial status of the issuer. The price you pay for a bond might be more or less than \$1,000.

Understanding Yield

Each new bond has a **coupon rate**—the interest it pays investors each year. A bond with a 5% coupon would yield 5%; \$50 in interest each year on a \$1,000 bond, for example. But as bond prices fluctuate, so do yields. Say the price of bonds is down and you can buy that \$50-a-year in interest for \$900 rather than \$1,000. Your yield on the \$900 you invested would be 5.56%. If you had to pay \$1,100, your yield would be only 4.55%.

Interest Rates Are Key

What makes bond prices fluctuate the most are changes in interest rates. For example, when the Federal Reserve Board pushed interest rates higher in an attempt to keep the economy from overheating, yields on new bonds moved higher, so prices of older bonds with lower yields were pushed lower.

Bond Funds Are Different

Some investors are most likely to buy shares in a bond *fund* in their retirement savings plan. The fund price is based on the value of all the bonds the fund holds. If prices of most, or even many, of the bonds in the fund fall, the price of your shares will probably fall, as well. However, because you're investing long-term, the day-to-day yield of your bond fund is less significant. Remember that mutual funds are sold by prospectus and that important information about risks, fees, investing strategy and more are found in this document.

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