



YOUNG INVESTORS

BECOMING AN...

Informed Investor

Today's Topic:
Bonds or Fixed Income Securities

Another type of investment that investors use is called a bond or a fixed income security. A bond is a long-term security obligation that promises to repay the original investment (principal) by a specified date, while paying a specific rate of interest.

It is basically an IOU that is issued by corporations, municipalities and the federal government to fund various types of projects such as road improvements, schools, manufacturing plants and equipment.

There are basically two types of bonds, a secured bond and an unsecured bond, referred to as a debenture. A secured bond is backed or supported by the pledge of an asset, such as a building, equipment or land. These assets serve as collateral for the prompt payment of interest and the repayment of principal. An unsecured bond is not guaranteed

or supported by the pledge of an asset but rather solely on the financial strength and future profitability of the issuer.

For example, McDonald's Corporation could issue an unsecured bond because this is an established, financially strong company that investors know, whereas Joe's Bakery may only be able to issue a secured bond because it is not an established or well-known company.



CONGRATULATIONS! MORIAH FROM ANKENY, IOWA
Last Quarter's Online Challenge Winner of the Argus Bean 5MP Digital Camera

THINGS TO KNOW

How Bond Prices Change With Yield

The value of bonds can get a bit complicated, but it is important to understand the relationship between price and interest rates. Most bonds have a fixed income return that investors receive which is called "coupon" return. Because this is fixed, when interest rates move, the price of the bond must adjust to the change in the interest rate level. The easiest way to do this is to think of a teeter totter. On one side of the teeter totter is the price and on the other side is the current interest rate. *Assuming a \$1,000 bond is issued with a 6% coupon, the following is how the interest rate movement will affect the value of the bond.*

INTEREST RATE EQUALS COUPON RETURN	INTEREST RATE GREATER THAN COUPON RETURN	INTEREST RATE LOWER THAN COUPON RETURN
Price \$1,000 = 6% 	Price \$800 8% ↓ ↑ Interest Rate 	Interest Rate 4% ↑ ↓ Price \$1,200

AS YOU CAN SEE FROM THIS SIMPLIFIED EXAMPLE, THERE IS AN INVERSE RELATIONSHIP BETWEEN THE BOND'S PRICE AND THE MOVEMENT OF INTEREST RATES. IF RATES MOVE HIGHER, THE PRICE OF THE BOND MOVES LOWER AND IF THE RATES MOVE LOWER, THE PRICE OF THE BOND INCREASES.

Game Center

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KID-THEMED Investments



In the Old West, whom did the cattlemen borrow money from?
• The "Loan" Ranger

In England, what type of security would the secret service agency issue?
• A Bond...A James Bond

Brain Teaser:

There are two bonds being sold by XYZ Corporation. One sells for \$5 and the other sells for \$3. A fund company bought 13 bonds for a total of \$57. How many \$5 bonds were purchased?
• 9 \$5 bonds (\$5*B+\$3*(13-B)=\$57)



- ✦ Walmart is the nation's largest grocer and toy seller. It sells more than 30% of diapers purchased in the U.S.
- ✦ For fiscal year 2008, Walmart had over \$374 billion in sales, which equals \$42 million in sales per hour...that's more than Home Depot, Target, Sears, Kroger, and Costco combined!
- ✦ In 2008, Walmart added 26 million square footage of store...that's as much as 450 football fields or 5,500 basketball courts!
- ✦ Walmart employs 1.4 million people in the United States, making it the largest non-government employer. There are 11 states with populations less than the number of individuals employed at Walmart.

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GAME STUDIO

This Quarter's Puzzler-unscramble and win a Coloring Book

CISDUTNO

A bond selling below its face value.

NOOUCP

Annual interest paid to bondholder.

NCLPARPII

Original investment.

ETICDR

Risk that issuer will not pay back bond.

TRIYMUAT

Date which bond will be repaid.

RCSEUDE

A bond backed by an asset.

As interest rates decrease, bond prices

_____.

Objective:

Unscramble these six mixed-up words that relate to bonds. We have provided a hint for each word on the right. Good Luck!

Use the circled letters above to identify an important relationship between interest rates and bond prices.

Name _____
 Address _____
 City _____ State _____ Zip _____
 Phone _____
 E-mail _____

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How to qualify: Either mail or e-mail the correct words with your name and address to Monetta Games at 1776-A South Naperville Road, Suite 100, Wheaton, IL 60189 or email to: info@monetta.com. **Entries must be received by March 15, 2009.**