

“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential with Downside Protection Since 1995.”

Bond Basics

Investor Education

September 2, 2011

What is a Bond?

A bond is a debt security, much like an I.O.U., that can be bought and sold by investors in the bond market. When an investor buys a bond, they are agreeing to lend the borrower (also known as the issuer) money over a given period of time in exchange for interest payments.

How are bonds different from stocks?

Stocks represent shares of ownership of a corporation. Bonds represent debt the corporation (or other entity) owes. A bond is guaranteed a fixed rate of income, while stocks may or may not pay varying levels of dividends. When a corporation goes into bankruptcy, bondholders are usually first in line to get their principal back, while a stockholder is always last in line, and might be lucky to get cents on the dollar back, if anything at all.

A Prospectus (or Official Statement) is the document released at the time a bond is issued that contains the details of the borrowing agreement, and includes the maturity and amortization schedules, the coupon rates, any call or sinker provisions, insurance coverage, and credit ratings. The prospectus also includes the overall structure of the bond deal, such as what the money will be used for, the source of cash used to make bond interest and principal payments, the security, if any, backing up the bond in the event of default, and any additional provisions bondholders would have in the event of bankruptcy, such as the seniority of their claim.

A Coupon is the annual interest amount the bond pays, usually paying half the total interest every six months.

The Maturity Date is the day the investor is repaid their principal amount; the day the bond matures.

Par Value is the face value of a bond. Par value is usually described at “100” or “1.00”. If an investor buys 10,000 bonds at any given price, they always have a par value of 10,000, no matter where the price the bonds trade at goes.

Price is the level at which a bond is purchased. Bonds can be purchased at par, or face value, or at a premium or discount (versus par). If a bond is priced at 105, it is priced at a premium. If a bond is priced at 98, it is at a discount.

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Yield is the expected return a bond is giving at a given price. Yield is a representation of the return an investor would get if they buy a bond at a certain price. Yields are higher when prices are lower, and lower when prices are higher. If a bond is priced at par, the coupon and the yield are equal. For example, if an investor buys a bond with a 5% coupon at 100, the yield is 5%. If the investor buys the same bond at 101, the yield goes down to 4.95%, and if the investor buys at 99, the yield increases to 5.05%.

A Bond Call is an option some bond agreements give to the borrower to call a bond early, repaying all or a portion of the principal before the maturity date. The **call price** is usually at par or a premium.

A bond’s Security is the collateral that has been pledged to back up the bond principal in the event the borrower defaults or goes into bankruptcy. Collateral may consist of property, other securities such as US Treasuries, or a stream of revenues. Not all bonds have pledged security.

Municipal Bonds are bonds issued by Government entities, such as cities, counties, states, or other government agencies. Municipal bonds may be issued to fund the building of a school or road, or to refinance older debt at a lower interest rate. Many municipal bonds are exempt from Federal, State, and/or Local income taxes.

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:

Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite’s monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite’s quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client’s returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:

Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

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Calculation of Risk-Adjusted Performance Returns Footnote:

Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:

For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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State of California Required Disclosure Legend:

"IMPORTANT CONSUMER INFORMATION"

"(1)A broker-dealer, investment adviser, BD agent or IA rep may only transact business in a particular state after licensure or satisfying qualifications requirements of that state, or only if they are excluded or exempted from the state's broker-dealer, investment adviser, BD agent or IA rep requirements, as the case may be; and "(2)Follow-up,

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individualized responses to consumers in a particular state by broker-dealer, investment adviser, BD agent or IA rep that involve either the effecting or attempting to effect transactions in securities or the rendering of personalized investment advice for compensation, as the case may be, shall not be made without first complying with the state's broker-dealer, investment adviser, BD agent or IA rep requirements, or pursuant to an applicable state exemption or exclusion. "(3)for information concerning the licensure status or disciplinary history of a broker-dealer, investment adviser, BD agent or IA rep, a consumer should contact his or her state securities law administrator."

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