Assessing the Current Price of a Bond

By BNET Editorial
published on BNET.com 10/09/2007

The current price of a bond is the amount investors are prepared to pay for it, which in practice will be somewhere between the bid price and the asking price.

Investors can check current prices to gauge how much a particular bond might cost them. They can also track changes in bond prices for an indication of trends and economic strength.

Only a small proportion of bonds trade each day, but representative prices—“bond tables”—are listed daily in the financial press. Since prices fluctuate throughout the day’s trading, these tables are only snapshots—but they still provide sufficient data to inform investors’ price estimations for comparable bonds. Other sources of information include business news channels and investor internet sites.

What to Do

Several key factors influence the current price of a bond:

- *Interest rates*. Bond prices fall as interest rates rise, and vice versa. For example, a bond offering 6% will be less attractive than other investment options if interest rises to 8%—so its price will go down. Similarly, if interest is 5%, a bond offering 7% looks like a good deal—so the price will go up.
- *Perceived risk*. Prices will be affected by the level of perceived risk involved (indicated by its credit rating). For example, a company with a history of reliable returns will be able to sell its bonds at high prices, or even at a premium (more than the face value). Conversely, high-risk bonds will be cheap to buy, but investors may never get to redeem them.
- *New bonds*. The price of existing bonds may change when new ones are issued and given a credit rating.

Bond tables may differ slightly between newspapers, but they all carry the essential information that investors need to compare prices:

- The interest rate that the bond will pay (coupon rate)
- The call date (when the issuer is entitled to call in the bond), or the date that the bond matures
- The most recent price and yield figures

The information is set out in a table similar to the one below (taking 10-year U.S. Treasury bonds as an example):

Rate	Maturity	Bid	Ask	Yld
3 5/8	01/15/2009	101:00	101:01	2.488

The first row shows that the bond is paying 3 5/8% interest, and that it's due to mature in January 2009.

The bid and ask prices are percentages of the bond's face value of $1,000. These numbers follow a convention where the digits after the colons are not decimals, but parts of 32. A bid of 101:00 means that a buyer was willing to pay 101% of the face value, which is $1,010. The seller was asking for 101:01, which works out at 101% + 1/32 or $1,010 + 0.031 = $1,010.31—a difference of 30 cents per thousand. If an investor was to sell the bond now (assuming they bought it for $1,000 when first issued), they would make around 1% profit.

The figure in the "Yld" column is the yield to maturity, which is an interest rate summarizing the total investment value of the bond.

What You Need to Know

- Yield and price are not the same thing. Yield is the return an investor would expect to receive on their investment, but is most useful as a comparative tool for investment planning. Price is the amount the investor paid for the bond in the first place.
- Most investors buy bonds intending to hold them to maturity. This, coupled with the fact that there are many more outstanding bond issues than stocks, limits the level of bond trading on any one day.
- A number of specialist agencies assess the risks of trading in bonds, and assign them a rating accordingly.
- Some bond tables also show trading volumes.
- There are many online calculators available to help investors gauge bond prices and yields.

Where to Learn More

Web Site:

Investing in Bonds: www.investinginbonds.com