Fidelity

MONEY GAINS MAKING IT COUNT

Chapter 2: Building an investment portfolio

Video 3

What affects returns for bonds

Coupon

A coupon, also referred to as a "coupon rate," is the annual interest rate paid on a bond. When you buy a bond, you are agreeing to let a government or company borrow money for a certain period of time; in return, they will pay you interest, otherwise known as a "coupon." To calculate the coupon rate, divide the annual coupon payment by the bond's face value, and then multiply by 100 to get a percentage. For example, if a bond pays $50 a year and has a face value of $1,000, the coupon rate is (50/1000) x 100 = 5%.

Interest rate risk

Interest rate risk is the chance that changes in interest rates will affect the value of a bond. When interest rates increate, bond prices decrease, and vice versa.

Total return

Total return on a bond includes the money you make from the bond, not just the interest payments.
It combines the coupons (definition above) and the capital gains or losses, which are the difference between what you paid for the bond and what you sell it for, if you decide to sell it before it matures.

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