ACC 211 - Discussion (BTN 10-4)

[Name of the Writer]

[Name of the Institution]

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Memo

To: Business Associate

From: Gabriel Liuzzi

Subject: Interpretation of the premium bonds

I appreciate your interest to invest in bonds. Bonds are the short term financings needed by the large corporations and offer to the public with a certain amount of return. These bonds are offered with premium rates which are the par value of the bond. Sometimes due to various factors its value increases and provides a better opportunity for investors to earn through selling these bonds. However, there is a risk of undervaluing the bonds, and the company always pay less than its actual value according to the time value of money. As the value of money is continuously decreasing with the passage of time, so the all the returns including the principal amount on the maturity of bonds is always less than the future value of the invested amount. The interest paid after the financial year is mostly less than the rate of return "r" of the net future value of money. The fundamental benefit of investment in bonds is the safety of money. However, there is a risk of depreciation in the price of bonds.

The investment decision in bonds depends on the total return on the bond according to the future value of money and analyzing other investment opportunities. For further guidance feel free to contact me during the working hours.

Good job with everything!

Reply to Sesen Joseph!

Hi Sesen,

I agree with your interpretation, and you highlighted several outcomes of investments in bonds. According to my point of view, bonds are safe investments because its return is fixed and the investor can get back the principal amount after the maturity. Lower risk is associated with investment in bonds as compared to investment in stock or another opportunity. The investment decision should be based on an analysis of risk and returns of different opportunities. The risk associated with this investment is the decline in the price of the bonds, which will incur a loss for the investor at the time of resale. The value of bonds sometimes appreciated while sometimes it depreciated.