



August 2022

## Capital Gains on a Bond? Really? How does that happen?

Did you know that the Bond Market is huge?  
It is 10 TIMES bigger than the Stock Market.

But you do know that since the Bond Coupon is fixed, it is the Trading Price of a Bond that will change. It will move to reflect changes to the going interest rates. The 'rules' of the Bond Market are different to that of the Stock Market; it's all about the interest rates and math.

- ✧ Interest Rates and Bond Prices work in opposite directions
- ✧ The higher the Interest Rate the Lower the Bond Price
- ✧ The lower the Interest Rate the higher the Bond Price
- ✧  $\text{Gain} + \text{Coupon} = \text{End Yield}$

***And there's the key:*** If you hold the contract of a bond with a *high* Interest Rate, and the going rate goes *down*, you will be able to sell that Bond *at a profit*.

*Look at the opportunity for a significant CAPITAL GAIN when / if the current going rate goes down again.*

AND, is it icing on the cake if that bond could be purchased at a discount?

Do I see a light bulb going on?

(See details on Page 2)

### the INCOME ADVISOR

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## **Royal Bank of Canada Bond**

**30 May 2027 / 31**

**Current Yield 4.584%\***

(\*Yield as of July 27, 2022 and subject to change)

**This bond was issued at \$100  
and now is trading at \$95 /100**

**How can this give us an opportunity to make *more than*  
the 4.584% ?**

**By selling at a premium**

**If the going rate falls to say 2%, then this bond would  
trade at \$104/100 – a clear opportunity to sell at a profit  
and realise a capital gain**

- This has happened before
- It is not out of the question, as it is very possible that governments have over reacted and moved the rates too high and will proceed to drop them
- Bonds can be bought and sold on a daily basis. A capital gain looks pretty darned good, as the Market may push the selling price higher than this discounted price.
- At least, the bond will mature at its par value: \$100.
- Love that comfort of the bond contract!

They used to call me The Bond Queen! Here we go again!  
Call us, let's talk.

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**You should know:**

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