Chapter 1

Introduction to Fixed Income Securities

Fundamental features of bond
Types of issuers
Importance of term to maturity
Floating-rate and inverse-floating-rate securities
Embedded option in bonds
Convertibility
Risks in fixed-income securities
Classifying Financial Innovation

Bond - debt instrument
Issuer - debtor or borrower
Plain vanilla bond
Principal - face amount
Contractually interest dates - coupon payment
Maturity date

New bond structures introduced in 1980s and 1990s
  Mortgage pass-through securities - pooling
  Derivative instruments - collateralized mortgage obligations, stripped
  securities

Sectors of U.S. bond market
  Treasury
  Agency
  Municipal
  Corporate
  Asset-backed Securities
  Mortgage
Bond Features

Issuer
Term to Maturity - short term, intermediate, long term
Principal and Coupon Rate - zeros
Floating-rate bonds - reset formula (reference rate + margin)
Inverse-floating-rate bonds
Deferred-coupon bonds - deferred, step-up, payment-in-kind
Amortizing securities vs. non-amortizing securities
  Weighted-average life vs. term to maturity
Embedded Options
  Call feature
  Put provision
  Convertible bond
  Exchangeable bond - convertible into stock of different company
  Currency payment option

Risks Associated with Bonds
Interest rate risk
Reinvestment risk
Call risk
Credit risk - default, credit spread, downgrade
Inflation risk
Exchange-rate risk
Liquidity risk - dealer spread
Volatility risk
Risk risk - ignorance