BOND CALCULATOR: THE VIRTUAL BOND ADVISOR IN TELEKURS iD

In 2008 Telekurs iD launched the Bond Calculator, an intelligent tool for specialists and anyone else wanting to track the bond market on a daily basis.

The Bond Calculator of Telekurs **iD** offers a full array of supplemental information in a clearly organised display for all kinds of bonds. It also enables experts and other interested parties to use specific simulations to determine how a bond could react to significant market factors. A few simple examples from day-to-day practice will illustrate this:

Case 1: Interest rates on a roller coaster

As an investor you have decided to purchase a solid bond. It promises an annual coupon of 4 ¼ % and will be repaid at par in 2017. You felt that you would be on the safe side with a government bond. However, the “hard” market factors count as well. The key interest rates, for instance, have a significant influence on the price performance of bonds. They are an important indicator not just for home-owners, but also for the well-being of the bond markets. The risk the investor takes is that the price of a bond will fall if the key interest rate rises. The following rule of thumb can thus be adopted:

> When the key interest rate rises –› bond prices fall.
> When the key interest rate falls –› bond prices rise.

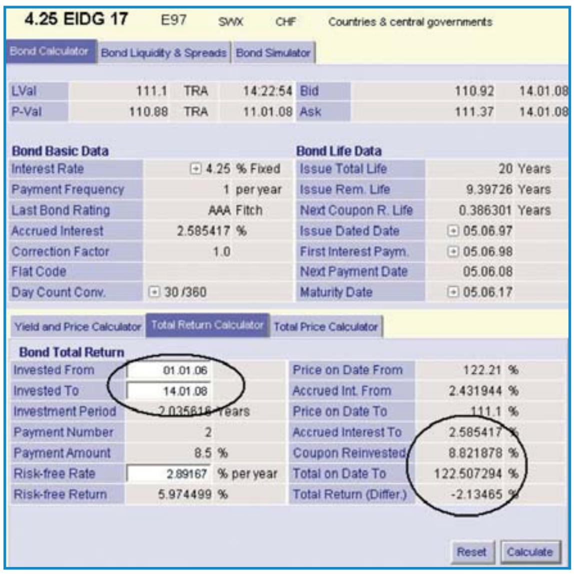
What other factors should be considered with regard to interest risks?

– If the bond’s repayment date lies far in the future – 2017 in our example – it will react more sensitively to changes in the key interest rate.
– Bonds react more sensitively to the market if they feature a low interest rate.

If the key interest rate rises to 4 %, the price of the bond will fall by 8.2 % below the current market value. Is it worth selling the bond from this perspective?

Case 2: Bonanza instead of the blues

In the example described above, should you choose to sell the bond today you might have to expect a minor loss, because the calculated price is now below market value. In calculating the yield, however, other factors must still be taken into account. This is also a job that the Bond Calculator can do for you:

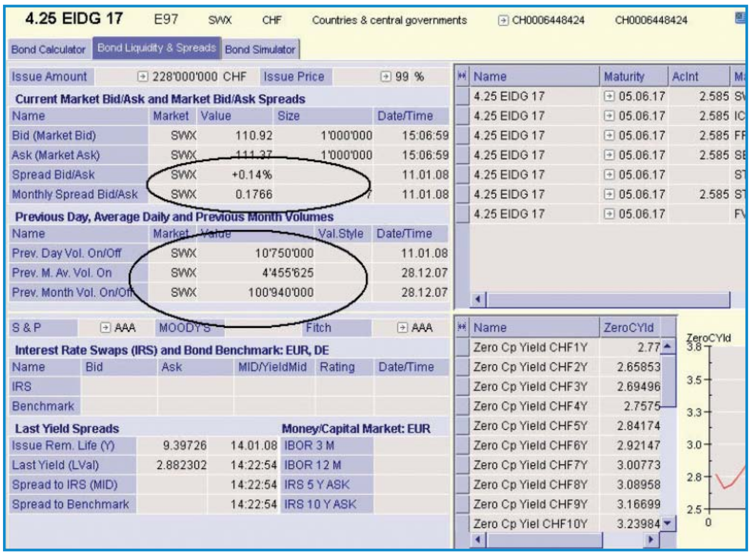


Selling the bond at this juncture would definitely not be recommended. Like equity investors, people investing in bonds need patience and stamina too.

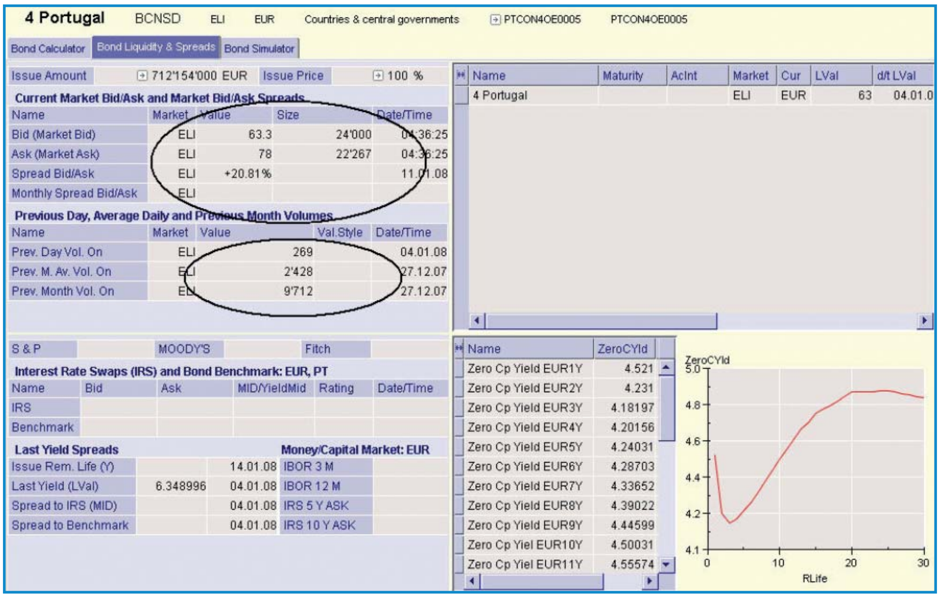
Case 3: No buyers in sight

In the previous calculation example, you had assumed that it would be relatively easy to re-sell your bond on the market. This, however, is precisely the drawback of the bond market: not every investment on offer finds a willing buyer right away. This is also called liquidity risk. Here is the rule of thumb:

> The greater the spread between
> the buy and sell offers,
> the greater the liquidity risk.



In this case, there is no liquidity risk, since the spread is quite small. The trading volume also shows that these bonds are in great demand.



Buyers and sellers are evidently not finding one another here. Note the low trading volume (size).

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