

## BOND AS A BETTER INVESTMENT

### WHAT ARE BONDS AND HOW DO YOU INVEST IN THEM

A bond is a debt security. When you purchase a bond, you are lending money to a government, corporation, or other entity known as an issuer. In return for that money, the issuer provides you with a bond in which it promises to pay a specified rate of interest during the life of the bond and to repay the face value of the bond (the principal) when it matures, or comes due.

A person can invest in bonds by purchasing the bonds through a brokerage firm. Now, it has become possible to purchase the bonds of local entities at the Central Asian Stock Exchange!

### BONDS VS BANK DEPOSIT

*So how is a bond a better investment than a bank deposit?*

The answer is.... TAX! There is no tax on interest gain for corporate bonds<sup>1</sup>! On the other hand, there is 12% tax on interest gain for bank deposit. In short, investing in bond simply earns you **more** money. The second great thing about bond is that it is easily tradable. When you need money, you can just SELL your bond at the secondary market at the stock exchange without losing any interest gained on the bond. However, with a bank deposit you will lose a great part of the interest gained when you decide to terminate the contract and get your money back.

### QUANTITATIVE EXAMPLE

Let us see in an example how investing in bonds is better financially!

Suppose you have 100 000 somoni and you would like to invest them. Below are the calculations of REAL return of the two similar options

	Option A – Investing in bonds	Option B – Investing in bank deposit
Invested amount	100 000	100 000
Stated annual coupon rate	22%	22%
Annual interest gain	22 000	22 000
Tax on interest gain	0	12 %*22 000 = <b>2 640</b>
Brokerage commission	<b>100 000* 0.5% = 500</b>	
Real return	21 500	22 000 – 2640 = 19360
Real return %	21.5%	19.36%

Now, assume you invested **1 000 000 somoni**, then investing in bonds would have earned you **215 000** somoni per year, whereas investing in bank deposit **193 600**. By investing in bonds, you could **earn 21 400 somoni more, or 2.14 %** more on every somoni invested!

<sup>1</sup> According to the latest TAX Code of the Republic of Tajikistan, all financial instruments traded at the Central Asian Stock Exchange are exempt from tax on interest gain.

## DIVERSIFICATION

*“Do not put all your eggs in one basket!”*

Investing in bond is, in addition, a perfect opportunity to diversify your investment. Ideally, to avoid unnecessary risks, the funds should be invested in a variety of different assets. Investing in bonds, stocks, and bank deposits can provide you will different sources of revenue.

## WHAT KIND OF BONDS TO BUY

So, what kind of bond to look for? Well, it depends on your investment style and strategy. Yet, an investor should be familiar with basic structure or characteristics of a bond. The structure of a bond includes the maturity, coupon rate, yield, type of the coupon and other essential elements. It is equally important to acquire bonds from corporations you can trust. A bond issued by a firm with good credit rating is more preferred. This is where Prime Invest can assist you.

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