



## Fixed Income Markets II - Evening

Continuing on from Fixed Income Markets I, this course examines the evolving products, changing marketplace and growing sophistication of the fixed income market.

Building on the knowledge gained in Fixed Income Markets I, this course continues the overview of fixed income focusing on the individual markets. Treasuries, municipals, corporate securities, mortgage securities, money market instruments and Government agency paper will be covered. Both primary and secondary markets will be discussed. The session will end with an overview of analytical tools. This course will benefit traders, sales assistants, research analysts, and other fixed income specialists.

### Targeted Audience

Sales personnel, junior research analysts, operations and systems staff, new entrants to fixed income markets, finance analysts and corporate bankers.

### Special Offer

Clients who register for this course will receive a complimentary 4-month subscription to FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. The move to the electronic version follows an ongoing review of our environmental responsibilities as a global business and as part of the Pearson group. FT.com also has features that are not available in hard copy, such as: Special Reports, Alphaville, editor blogs, education sections and much more! Subscriptions will start within 6-8 weeks of the start of class and are limited to one subscription per client. (Please note: as of May 1, 2011, the electronic subscription replaces the hard-copy 3-month Financial Times subscription.)

### Advance Preparation

No advance preparation required.

### Prerequisites

Fixed Income Markets I or equivalent knowledge. Financial calculator required.

### Alumni Comments

*"The instructor was able to give a variety of examples no matter the topic."*

*"The course covered a lot of information - I really enjoyed it!"*

## **Follow-Up Courses**

Fixed Income Mathematics - Day

Fixed Income Mathematics - Evening

Yield Curve Analysis

**Level: Intermediate**

**CPE Credits: 20.0**

**Instructional Method: Group-Live**

## **Detailed Outline**

### **Yield Calculations**

- . Yield vs. return vs. interest rate
- . Nominal yield
- . Current yield
- . Real yields
- . Price and yield
- . Yield to maturity

### **Duration analysis**

- . Definition
- . Calculation - explained
- . Interpretation
- . Limitations/advantages

### **Modified Duration**

- . Application

### **Yield Analysis**

- . Impact of interest

### **Accrued interest**

- . Standard payment date (6 mos./dtd date)
- . Accrued interest calculations
- . Relationship of accrued interest and yield

### **The treasury and money market**

#### **Overview of the money market**

- . Function of the money market
- . Characteristics
- . Location of market place
- . General description
- . Participants

#### **The Federal funds market**

- . Importance of Federal funds
- . Defined as a security

- . Sources of return
- . Time value of money
- . Measuring returns
- . Re-setting the reinvestment rate

### **Value of fixed income securities**

- . Yield as a value measure
- . Yield to maturity - components
- . Yield to maturity - assumptions
- . Horizon analysis

### **Bond pricing calculations of dollars**

- . Per bond basis
- . Total principal

### **Value of a basis point**

- . Definition
- . Calculation
- . Factors influencing price volatility

### **Yield curves**

- . Definition of yield curve
- . Determinants of shape of yield curve
- . Shape of yield curve and market expectations
- . Spreads between yield curves

### **The rating services**

- . Moody's
- . Standard & Poor's (S&P)
- . Fitch Investor's Services (FITCH/IBCA)
- . External research analysis firms
- . Research departments

### **Uses for the ratings**

- . Ratings reflect the probability of timely payment
- . Judgment - qualitative and quantitative
- . Collective judgment approach
- . Rating equality between rating agencies
- . Compensation for rating services

- . Methods of Federal funds exchange

### **Types of money market instruments**

- . T Bills
- . Negotiable and jumbo certificates of deposit
- . Commercial paper
- . Banker's acceptances
- . Repurchase agreements and reverses
- . Municipal short term instruments

### **U.S. government markets**

- . Origin of the U.S. debt markets
- . OTC markets
- . Principal business

### **Specifications**

- . Size
- . Structure
- . Volume
- . Spread narrower than other markets
- . Tax implications
- . Depository system
- . Participants

### **T Bills**

- . Size qualifications
- . Discounting and calculations
- . Maturity structure
- . Specialty bills

### **T Notes**

- . Size qualifications
- . Pricing and maturity structure
- . Basic notes and auction cycles
- . Specialty notes

### **T Bonds**

- . Size qualifications

## **Various indenture provisions**

- . Call provisions
- . Put provisions
- . Sinking fund provisions
- . Refunding
- . Prefunding

## **Additional security considerations**

- . Covenants of the obligation
- . Third party guarantees
- . Insurance or collateral

## **Application/interpretation of ratings**

- . Investment decisions
- . Comfort levels
- . Short term securities vs. long term securities

## **Contingent credit risk**

## **Trading environment**

- . Market areas
- . Market players
- . Organized exchanges
- . Types of trades
- . Trading conventions

- . Pricing and maturity structure
- . Auction cycles

## **Strip securities**

- . History
- . Dealer created proprietary zero coupon certificates
- . Group of primary dealers began to issue TRs
- . Treasury announced strip program
- . Specifications
- . Trading specifications

## **Flower bonds**

## **Primary market**

- . Closed auction - single rate auction
- . Dutch auction - multi rate auction

## **Secondary market**

- . Trading segmentation
- . Trading day overview and week overview

## **The municipal market**

- . Advantages to the issuer/borrower
- . Tax considerations
- . Features of municipal debt
- . Legislative constraints

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## **General obligation bonds**

- . Limited vs. unlimited tax
- . Issuance limitations
- . Voter approval
- . Statutory limitations

## **Revenue bonds**

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## **Asset backed securities**

- . ABS support
- . Credit enhancements
- . Types of ABS other than mortgage

## **History of the mortgage**

- . Traditional mortgage

- . Characteristics
- . Payable from revenues
- . No debt limitation
- . Sources of revenue

### **Other bonds**

- . Special tax housing bonds
- . Lease rental short terms
- . Moral obligation
- . IDB and PCR
- . Double barreled

### **Primary market**

- . Structures of a borrowing
- . Underwriting process
- . Distribution tiers
- . Syndicate restrictions
- . Legislative restrictions

### **Secondary market**

- . Trading characteristics
- . Trading desks

### **Corporate bond general characteristics**

#### **Classifications**

- . Public utilities
- . Transportation
- . Industrials - catch all
- . Banks and finance companies
- . International or Yankee issues

### **Corporate debt maturity**

#### **Interest payment characteristics**

- . Fixed income or rate bonds special payment
- . Participation bond profits or asset appreciation
- . Income bond contingent on sufficient earnings
- . Zeros as a corporate vehicle

- . Government agencies
- . Lenders
- . Borrowers
- . Insurance

### **Types of alternative mortgages**

- . GPM
- . ARM

### **Formation of an MBS**

- . Originators
- . Intermediaries
- . Packaging agencies
- . Secondary market

### **Pricing conventions**

- . Factoring
- . Calculating principal amount understanding
- . Figuring invested dollars

### **Yield determinants**

- . Half life
- . FHA experience
- . Speed
- . Pre-payments

### **Computing yield**

- . FHA experience
- . PSA experience
- . CPR

### **Factors affecting paydown**

- . Convexity
- . Economic
- . Interest rate environment

### **The CMO**

- . Packaging
- . IO and PO strips

## **Types of bonds**

- . Secured
- . Unsecured

## **Unsecured**

- . Debenture bonds
- . Subordinated debenture

## **Security for bonds**

- . Real property using a mortgage
- . Personal property - may be pledged
- . The type of security or lack of is usually indicated in title of the bond issue

## **Secured bonds**

- . Mortgage bond
- . Collateral trust bond
- . Equipment trust certificates

## **Convertible securities**

- . General overview
- . Issuer's position
- . Investor's advantages/disadvantages
- . Terminology
- . Determining various relationships

## **Preferred stock**

- . General specifications
- . Issue types and issuers
- . Terms and features
- . Fixed rate or variable
- . Special features

- . WAC and WAM
- . Tranches

## **Credit Derivatives**

- . Market participants
- . Risks of credit derivatives

## **Types of credit risk**

- . Credit default risk
- . Credit spread risk
- . Downgrade risk

## **Credit derivatives conventions**

- . The basics
- . Single name
- . Default baskets
- . Market terminology
- . Conditions to payment

## **Asset swaps**

- . Mechanics of single, portfolio, index and exotic CDOs
- . Pricing

## **Structured products**

- . Credit linked notes
- . Collateralized debt obligations
- . Collateralized loan obligations
- . Collateralized bond obligations
- . Synthetic CDOs

## **Risks of credit derivatives**

- . Credit
  - . Market
  - . Liquidity
  - . Legal
  - . Operations
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## **Typical asset movement scenarios (swaps)**

- . Riding the yield curve
- . Substitution swaps (primary vs. secondary)
- . Inter-market spread
- . Rate anticipation
- . Tax swapping

## **Asset holding**

- . Long-term investing view
- . Short-term trading view
- . Volatility
- . Return over time

## **Trading strategies**

- . Transition from high to low yields
- . Transition from low to high yields

## **Hedging**

- . Buying and selling to market expectations
- . Use of derivatives as cash substitutes
- . Theory of hedging

## **Portfolio and investing decisions**

### **The investment management process**

- . Setting investment objectives
- . Establishing investment policy
- . Selecting the portfolio strategy
- . Selecting the assets
- . Measuring and evaluating performance

### **Overview of fixed income portfolio management**

- . Historical perspective
- . Sources of return
- . Horizon and yield curves

### **Overview of risks associated with fixed income securities**

- . Bond specific
- . Portfolio risk characteristics

### **Portfolio management strategies**

- . Bond management techniques

### **Active portfolio management**

- . Overview of the active portfolio management process
- . Other strategies or tactics
- . Examples of active portfolios

### **Passive portfolio management**

- . Indexed bond funds: investing in the fixed income market
- . Bond immunization: safe planning for future needs
- . Dedicated portfolios: secure income to cover payouts
- . Cash flow matching

### **Case studies for fun**

- . Barings Bank Quick study in bad management and supervision
- . Orange County
- . Daiwa Bank
- . Long Term Capital Management



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