

FINRA Review letter **FR2008-0102-0197/E** January 10, 2008

Current bond prices determine their yields - and perhaps the economy's future

Per the reviewer's comments, the following disclosure has been added:

Note: while government bonds are quoted as thirty-seconds, the prices of most other bonds are quoted as eighths.

Current bond prices determine their yields – and perhaps the economy’s future

Retirees ultimately rely on bonds since they’re the basis of many income-oriented investments. Understanding current bond prices allows you to recognize how much they’re discounted (or at a premium), their current yield, and economy trends they may imply.

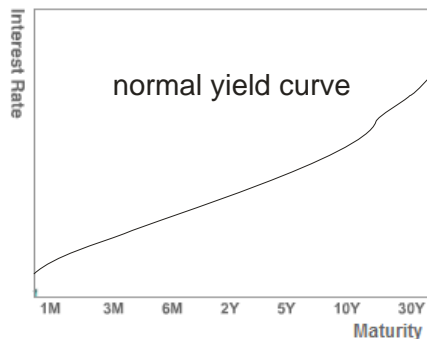
You can read the current prices of bonds in most financial papers. A bond's dollar price represents a percentage of the bond's par value – the amount redeemed to you when the bond matures (is retired). But any fractional part of the percentage is given in ‘thirty-seconds’.

As a hypothetical example, see the box below for a two-year treasury note with a price of 100-27/32. The whole number (e.g. 100) is the percentage of face value, while the number following the whole number (27/32) is the fraction of a percent expressed in terms of a number of 1/32s. So the exact percentage is 100% plus 0.84375% (which is the decimal equivalent of 27/32). So the current price is 100.84375% of its par value. If you were to buy a \$100,000 two-year Treasury note, you would pay \$100,843.75.

Note: while government bonds are quoted as thirty-seconds, the prices of most other bonds are quoted as eighths.

Nov 20 7:24am ET
maturity of bond

	Price	Change	Yield	Yld Chng
2 yr	100 27/32	+10/32	3.16	-0.18
5 yr	101 14/32	+20/32	3.55	-0.14
10 yr	101 14/32	+25/32	4.07	-0.09
30 yr	108 16/32	+1	4.47	-0.06



Looking at the “yield” column, the table shows that the yields of treasury securities increase with the term. Both inflation and interest rate risk generally give bonds of longer maturity higher interest rates. A plot of this dependence produces the yield curve. When it increases to the right it’s called ‘normal yield curve’.

In unusual circumstances the curve decreases to the right. Such an ‘inverted yield curve’ has preceded two recessions. What does the current yield curve mean for your investments?

Give us a call or fill out the card so we can help you purchase fixed income securities suitable for your portfolio.

January 10, 2008

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Reference: **FR2008-0102-0197/E**

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REVIEW LETTER

1. Current bond prices determine their yields - and perhaps the economy's future Article
Rule: 2210
1 page

Fee: \$100

Total Fee: \$100

Attention: James Williams

Revisions are necessary for the above-referenced Current bond prices determine their yields – and perhaps the economy’s future Article (the “Article”) to be consistent with applicable standards. We offer the following specific comments:

We note the Article discusses the pricing of bonds, specifically “A bond’s dollar price represents...any fractional part of the percentage is given in ‘thirty-seconds.’” However, in order to provide a sound basis to evaluate this information, pursuant to Rule 2210(d)(1)(A), a statement must alert readers that while government bonds are quoted as thirty-seconds, the prices of most other bonds are quoted as eighths. Thus, the Article must be revised to address this issue.

Although this material has been reviewed by the undersigned, Derek Ashworth remains your firm’s regularly assigned analyst.

If you have any questions regarding these comments, please contact me at 240.386.4500.

Sincerely,



Nancy M. Damiano
Analyst



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***NOTE:** As a FINRA member, you are responsible for determining whether any communication with the public, including material filed with the Department, complies with all applicable requirements. The views expressed herein are solely advisory and do not constitute findings of compliance with, or violations of FINRA or SEC rules. It is assumed that the material does not omit material facts, contain statements that are not factual, or offer opinions that do not have a reasonable basis.*