

# Top-rated bonds have pitfalls Limit claims before you hire a worker

At a recent seminar I asked the following question: "Besides CD, what's the safest, guaranteed investment available today?" The answer came from a well-qualified source, Mr. Delta Clinton: "The safest investment is AAA-rated bonds." This answer typified the confusion which exists in investors' minds about the safety of high-grade bonds.

## THE TRUTH:

Assume you purchase a 8 percent, 30-year, AAA-rated bond for \$1,000. Because of its high rating, you can expect to receive \$40 every six months for 30 years. Also, upon maturity in 30 years, you will receive the nominal price of \$1,000. The potential for gain in this case is practically non-existent. That is why most bond investors consider high-grade bonds as both guaranteed and safe.



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## AND THE MYTH:

While the coupon payments and the maturity price are never at risk, this bond, like all its counterparts, carries a great deal of market interest rate risk.

The accompanying chart articulates this risk. It's submitted to you purchase of this bond. The market interest rate rises to, say, 12 percent, the market price of this bond will drop to \$677, a drop of 32 percent. Furthermore, the argument that you

have no intentions of selling this bond is also not valid, since you would suffer the loss whether you sell it or not. In technical jargon, this is known as an opportunity cost.

In addition to the drop in the bond's market price, the higher inflation rate which is generally associated with a high interest rate, also reduces your real return. This means that even though you continue to receive \$40 every six months, because of inflation the real value of

the coupon payments is less than \$40.

## NEXT WEEK: More on bonds.

Educational seminar: Main Topics: 1. Retiring? What are your best financial choices? 2. Avoiding Medicare tax - is it always desirable? 3. Stock market - is it time to get in or out? 4. How risky are safe investments?

The seminar, sponsored by the Observer and Eccentric Newspapers and Coordinated Financial Planning will be held from 7-9 p.m. on Tuesday, July 18 in the offices of Coordinated Financial Planning, Sheffield Office Park, 3250 West Big Beaver, Suite 540, Troy. For reservations call 633-8888.

**Sid Mittra** is a professor of finance, school of business at Oakland University and owner of Coordinated Financial Planning.

their taxable payroll. In other words, a company with a taxable payroll of \$1 million could pay from \$10,000 to \$100,000. Part of the tax goes into a reserve fund, which could be used, for example, to cover an unexpectedly large number of successful claims.

The percentage charged a company in a given year depends on several variables, including changes in payroll, the number of successful claims against it and the amount it has in its reserve. But in general the fewer claims for which the company is held responsible, the lower its unemployment tax bill will be.

Many firms have in-house industrial relations or human resources personnel who handle unemployment tax matters.

## datebook

### © DRUG ABUSE

Thursday, July 13 — "Getting Help with Drugs and Alcohol" workshop offered noon to 1 p.m. in the third-floor auditorium of Comprehensive Health Services main building, 2875 W. Grand Blvd., Detroit. Information: Comprehensive Health Services, 875-4200 Ext. 2687.

### © PHOTOGRAPHY SEMINAR

Saturday-Sunday, July 14-15 — Photography seminar with Monte Nagler offered 12:30-5 p.m. at Cranbrook Schools, 550 Long Pine, Bloomfield Hills. Fee: \$40. Information: 645-3035. Sponsored by Cranbrook P.M.

### © MARKETING ASSOCIATION

Tuesday, July 18 — American Marketing Association meets in Southfield. Information: Ray Bonelli, 659-7094.

### © RECORDS MANAGERS

Wednesday, July 19 — Association of Records Managers and Administrators' program on "How to Make Effective Presentations" at 5:30 p.m. at the Skyline Club in Southfield. Information: Marilyn Brozovic, 244-1002.

### © REAL ESTATE MANAGERS

Wednesday, July 19 — Michigan Chapter No. 5 of Institute of Real Estate Management hears a program in Southfield by Van Fleming on

personal finances; forms for determining your net worth will be used. Information: Margaret Davey, 538-0360.

### © INTERNATIONAL BUSINESSES

Wednesday, July 19 — International Business Forum meets at 11:45 a.m. at the University Club, 1411 E. Jefferson, Detroit. Topic: "International Students: an Asset to American Business." Fee: \$15. Reservation: Don Keesee, 540-2615.

### © GIVEN ORGANIZATION

Wednesday, July 19 — Detroit Delta Chapter of Charles J. Given Organization meets at 6 p.m. at the Ramada Inn, one-half mile south of 12 Mile on Telegraph, Southfield. Topic: "How to Buy a Diamond." Free. Information: Greg Adair (after 6 p.m.), 421-7493.

### © BEING A PARENT

Thursday, July 20 — "Effective Parenting" workshop offered noon to 1 p.m. in the third-floor auditorium of Comprehensive Health Services' main building, 2875 W. Grand Blvd., Detroit. Information: Comprehensive Health Services, 875-4200 Ext. 2087.

### © FINANCIAL INFORMATION

Friday, July 21 — "Financial Information for Business Owners" offered 8:30 a.m. to noon at Wayne State University, 6001 Cass, Detroit. Information: Comprehensive Health Services, 875-4200 Ext. 2419.

Fee: \$45. Information: Jim Couto, College of Lifelong Learning, 577-4665.

### © HOME-BASED BUSINESSES

Wednesday, July 26 — "How to Start and Manage Your Own Home-Based Business" offered 6-9 p.m. at Detroit College of Business, Woodward Boulevard south of Michigan Avenue in Dearborn. Fee: \$20 for non-members, and includes dinner. To register or for information, call 737-4477.

### © NETWORKING

Thursday, July 27 — "Networking" workshop offered noon to 1 p.m. in the third-floor auditorium of Comprehensive Health Services' main building, 2875 W. Grand Blvd., Detroit. Information: Jim Couto, College of Lifelong Learning, 577-4665.

### © CUSTOMER SERVICE

Monday, July 31 — Author/businessman Tim Connor of Training Associates International will discuss "Customer Service Attitudes and

Your Bottom Line" at a meeting of the Builders Association of Southeastern Michigan at 5:30 p.m. at Romeo's West Bloomfield, 2101 S. Telegraph. Registration is \$15 for members, \$20 for non-members, and includes dinner. To register or for information, call 737-4477.

### © MARKET STRATEGY

Friday, Aug. 18 — "Planning Your Market Strategy" offered 8:30 a.m. to noon at Wayne State University, 6001 Cass, Detroit. Fee: \$45. Information: Jim Couto, College of Lifelong Learning, 577-4665.

### © TUTORING

Wednesday, July 26 — "Tutoring" workshop offered noon to 1 p.m. in the third-floor auditorium of Comprehensive Health Services' main building, 2875 W. Grand Blvd., Detroit. Information: Jim Couto, College of Lifelong Learning, 577-4665.

### Information for this column should be sent to the business editor, Observer & Eccentric Newspapers, 36251 Southfield Rd., Livonia 48150. Information must be received by Monday to be published in the Thursday issue. Publication cannot be guaranteed. Information should contain a daytime telephone number where information can be verified.

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