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UNIT Monash: Week Six Newsletter

Hey <<First Name>>!

This newsletter is focused on introducing you to the rates based, fixed-income asset class and will provide you with relevant resources if you would like to diversify your portfolio with them.

Check out the week six newsletter below for the details!

Weekly Info Wrap

Introduction to Investing in Fixed-income

So, what if I was to tell you that there's a form of investing that almost all of us take part in; however, most of us have a limited understanding about? Unsure? Scratching your head here? Well... Doubt no more!

I introduce you to the world of rates. Even though we are all familiar with stocks, we can also invest in assets generating income with fixed or varying interest rates. However, for this article, the focus is on what fixed-income assets are and how they work.

Fixed-income security is a type of investment which pays you a fixed amount of return, which you receive at specific dates during the life of the asset. A fixed interest rate determines this, hence the name. Governments and firms issue these assets to raise money for their projects and operations, leading to the existence of corporate and government bonds and notes in the market.

So how does it all work? When the government or company issues fixed income securities, and investors decide to purchase them, investors lend proceeds of a specific value to the issuer. The profits are dependent on the price of the security.

The price of the security is affected by a multitude of factors such as; the coupon rate provided and the interval period in which this rate is paid for the security; the market discount rate (i.e. the rate of return which the investor requires) as well as the duration of the bond's life.

It is important to note that each fixed-income security issued has a different credit rating, which reflects the level of risk associated with investing in that security. The riskiness of a particular bond demonstrates the likelihood of the issuer being able to meet payment commitments. If a bond has a lower credit rating, it should offer a higher market discount rate.

The issuer borrows these proceeds for a specified period, which is commonly referred to as the maturity period. At maturity, the issuer repays the investor the final coupon payment as well as an additional predetermined amount, which is known as the principal or face value. The security usually has a specified face value, generally of \$1000 per security, but can vary from security to security. In between issuance and maturity, the investor receives fixed interest payments (coupon payments) at specified intervals during the security's life.

Additionally, the investor can decide not to hold the security until maturity and trade the security on the bond market, in a similar fashion to trading stocks on the stock market. If you sell a bond, you receive an agreed-upon price for the bond and make a gain or loss on the original purchase. Movements of the underlying market discount rate determine the changes in the bond price over time. A decrease in the market discount rate increases the bond price, whereas an increase in the market discount rate decreases the bond price.

Understanding how fixed-income securities operate and how they function within markets is essential for investors who want to mitigate risk through a diversified portfolio.

[Click here](#) to view the current Australian government bonds and their trading price.



Weekly Global Breakdown

Australia

The Australian share market had a strong finish to the week, having its best day since June, with every sector finishing in positive territory. The benchmark S&P/ASX 200 and the broader All Ordinaries were both up 1.49 per cent and 1.41 per cent respectively. The healthcare giant, CSL and the upcoming technology company, Afterpay both hit all-time highs on Friday, with their share prices surging to \$240.87 and \$30.98 respectively.

The earnings season has come to a close with most sectors reporting soft earnings results. However, healthcare stock's earnings have stormed higher, with some double-digit earnings growth.

The ASX is poised to open lower on Monday with the SPI futures pointing to a 5-point loss at open. Looking ahead, there will be cash rate decisions being made by the Reserve Bank of Australia on Tuesday and Bank of Canada on Wednesday, as well as the release of US non-farm payrolls on Friday.

US

US equities closed the week with mixed results, with investors remaining alert as the latest hike in US tariffs on Chinese imports are due to be imposed on Sunday. The Dow Jones Industrial Average and S&P500 finished slightly higher; climbing 0.16 per cent and 0.06 per cent respectively, while the Nasdaq Composite slid 0.13 per cent. In August, the consumer sentiment index has suffered its most significant decline in a month since December 2012, with the ongoing trade war and inverted yield curve sparking worries over an imminent recession.

US markets will be closed on Monday for a public holiday, with US futures expecting to fall following the US and China imposing new tariffs on each other's goods.

Asia

The Asian market had a flat finish to the week, as any uplift in trade optimism from hopeful trade negotiations were overshadowed by further US tariffs on Chinese imports, commencing on the 1st of September.

The Shanghai Composite slumped 0.20 per cent on Friday and 0.40 per cent for the week, with the mounting trade tensions and a fall in the Chinese Yuan weakening sentiment. Hong Kong's Hang Seng was up 0.10 per cent on Friday, however, it slumped 1.70 per cent for the week. The trade war and the ongoing political crisis have weighed on markets.

Europe

European markets have edged higher on Friday, with investors feeling more at ease as the US and China are willing to return to the negotiation table. The pan-European STOXX 600 index was up 0.70 per cent.

The real estate sector rose 2.00 per cent on Friday, after the release of a report highlighted that Berlin's

In times of uncertainty, investors will be looking to get ahead of defensive stocks, such as food and beverage, healthcare and utilities.

New to markets? Got Questions?



As we mentioned in previous emails - we started UNIT Monash with the vision of educating the student community in investing and trading to one day strive for financial independence.

We want to create a new concept of peer-to-peer communications about investing and trading. There's a lot of value in sharing experiences, having opinions and shedding light on new ideas. Feel free to get in contact with us via Facebook if you have any enquiries about investment, trading or our upcoming events or if you would like to provide any feedback.

Regards,
UNIT Monash

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