



Strip Bonds

World Markets

For the investor seeking safety of principal with a guaranteed return, Strip Bonds are an ideal investment choice.

What are Strip Bonds?

Strip or Zero Coupon Bonds are existing federal, provincial, municipal, or corporate bonds that have been separated into their component parts (each interest payment and the single principal payment). These components are then made available to investors as new, individual securities. The Strip Bond market consists of Coupons and Residuals, with Coupons representing the interest portion of the original bond and the Residual representing the principal portion. Both are generally appropriate for individual investors.

How do Strip Bonds "Work"?

Strip Bonds are like Government Treasury Bills in that they pay no interest until maturity. Strip Bond prices depend on the current interest rate levels and fluctuate from day to day. Until maturity however, strip prices are always below par (\$100.00). The "interest" earned is the difference between the "discounted" purchase value and the stated maturity value.

Regardless of how general interest rates fluctuate in the interim, the rate of interest (or *yield*) earned is guaranteed as long as the Strip Bond is held to maturity. Since there are no extra charges associated with a Strip Bond transaction, the quoted yield is the actual compounded semi annual (or annual) yield that you will earn throughout the life of the security if held to maturity.

The table below gives a general indication of what an investor might expect to pay for a \$10,000 face value Strip Bond in a number of different interest rate environments.

CURRENT VALUE OF \$10,000 STRIPS

Years to Maturity	Interest Rates (compounded semi-annually)				
	5%	6%	7%	8%	9%
19,5189,4269,335		9,246		9,157	
2	9,060	8,885	8,714	8,548	8,386
3	8,623	8,375	8,135	7,903	7,679
5	7,812	7,441	7,089	6,756	6,439
10	6,103	5,537	5,026	4,564	4,146
15	4,767	4,120	3,563	3,083	2,670
20	3,724	3,066	2,526	2,083	1,719
30	2,273	1,697	1,269	950	713
40	1,383	940	638	433	295

Strip Bonds are available in terms to maturity ranging from less than 1 month to over 50 years. Both Coupons and Residuals are handled on a *book-based* settlement system, whereby the physical securities are held on behalf of all holders by major trust companies or the Canadian Depository for Securities (CDS), until maturity.

What if I need to sell my Strip Bond before maturity?

The prevailing level of interest rates affects the price paid for a strip sold back before it matures. Like other bonds, the price of a strip has an inverse relationship to its yield. When interest rates (and yields) rise, strip prices fall and vice versa.

Investors should understand that Strip Bonds prices are more "volatile" than those of ordinary bonds. This means that when interest rates rise or fall, Strip Bond prices fall or rise more extremely than do prices of traditional, interest-bearing bonds. For example, the value of a Strip Bond purchased in a lower interest rate environment will decrease if interest rates rise shortly thereafter. If rates should fall, however, the value will increase at a greater rate than expected. In the latter case, an investor could sell the Strip Bond before maturity and realize a capital gain. In a stable interest rate environment, the price of the strip will move inexorably toward par; selling back in such a case would provide neither a capital gain nor a capital loss.

Over the past decade, the Strip Bond market in Canada has grown to a total size of over \$160 billion and CIBC World Markets has established itself as one of Canada's premier Strip Bond trading and sales operations. CIBC World Markets maintains an active, liquid secondary market should you need to sell your Strip Bond holdings back for any reason.

What About Taxes?

Revenue Canada deems that the difference between the purchase value and the maturity value of a Strip Bond constitutes accrued interest. Thus, outside of a registered account, an annual interest value must be calculated and taxed accordingly, regardless of whether or not it has actually been received by the investor. Since interest income is taxed at a higher rate than capital gains, Strip Bonds are well suited to tax-deferred or tax-exempt accounts such as RRSPs. However, under certain circumstances, Strip Bonds can also benefit non-registered portfolios.

An official Investment Dealers Association Strip Bond Information Statement, outlining the basic tax implications and characteristics of Strip Bonds, is automatically sent to all clients upon completion of initial purchase and is available to others upon request.

How do I Buy Strip Bonds?

Wood Gundy Private Client Investments Financial Consultants have full details on current rates and offerings. Let one of them advise you on a term to maturity for your needs.

A GREAT INVESTMENT TO MEET LONG TERM OBJECTIVES

With Strip Bonds, you can pre-determine your retirement assets today!

- Strip Bonds are well-suited to long-term investment accounts where they can be held to maturity at a guaranteed yield.
- Strip Bonds are available in a variety of maturity dates that makes it easy to match your specific investment needs. For example, if you will be 65 in the year 2004, and want your securities to mature at that time, you can purchase a Strip Bond with a 2004 maturity to meet this requirement.
- Strips are ideal for RRSP and RESPs accounts - which are long-term tax-deferral vehicles- and RRIFs, which have specific cash flow withdrawal requirements.

FLEXIBILITY

Strip Bonds have no minimum investment amount requirement and are available in increments of \$1.00. As well, many Strip Bonds are available in sizeable amounts. Thus Strip Bonds suit the needs of both large and smaller investors.

GUARANTEED RETURN

The return on a Strip Bond investment is based on internal, semi-annual compounding. The total return to maturity of the Strip Bond can be easily determined and guaranteed at the time of purchase.

**Call a Wood Gundy Private Client Investments Financial
Consultant today! He or she
will be pleased to demonstrate how
Strip Bonds can improve your
fixed income returns.**

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