Renowned Darla Moore School of Business graduate and bond analyst Ms. Jane Gotzrox greets her intern. “Sparky,” she says, “you are starting to build some basic skills in analyzing bonds, but now it is time to get deeper into the details. That’s where fortunes have been made and lost. Small differences in bond values don’t look like much, until you apply leverage. Then, a couple of pennies in missed valuation can mean REAL money.”

“Let me give you an example by having you pull together some evidence that different fixed income investments pay interest quite differently, even when they appear to have the same rate or yield. This should help build your intuition and give you another page for your interview notebook.”

“Get onto Excel with Yield Book Add-in and find the invoice change for $1 million face value of different investments – all yielding 6% and with 6% coupons. I want you to use a Treasury bond, a corporate bond, and a Eurobond. Make them all user bonds with 11/15/20XX maturity dates. Have them all be denominated in USD. Be careful in setting the bonds’ day counts. There are LOTS of day count conventions. For this exercise, you need Act/Act, 30/360 and 30/360e. For accrued interest it doesn’t matter about term to maturity, but make them 10-years, anyway.”

“I want you to do those calculations for February 27, 2015 to March 1, 2015; April 27, 2015 to May 1, 2015; July 27, 2015 to August 1, 2015; and February 27, 2016 to March 1, 2016.”

“Just to make sure that you understand and to continue to document that Yield Book Add-in gets things right, I want you to repeat the exercise using accrued interest calculations in Excel. If you have to write your own functions, so much the better, but I’ll bet if you poke around you can find functions that can do it all.”

“When you’re done, give me a nice pretty package of Yield Book Add-in screens and Excel calculation printouts. You can make them more valuable if you include some notes to yourself about what you did and what you found.”