

International bonds with leverage

An European opportunity is to invest in a portfolio of international bonds of good ratings (Minimum « A ») and to apply a leverage with a credit line to increase the value of the assets as well as the yield.

The situation of the bearer of securities is quite different from one security type to another. The shareholder is the bearer of a part of the capital, at his own risks, ups and downs. The debenture or bond holder owns a debt security from a large company or a state organization, with the payment of interest and the insurance of the capital repayment at maturity, known from the date of issue.

Nevertheless the returns are lower than in the equity market, up to about 7% yearly. To correct this low yield, an European bank grants a credit line in counterpart of the bonds. This credit line is either 1, 2, 3 or 4 times the bonds value, while the risk will increase with the leverage level.

The credit line has a low rate, 2.0% yearly, and the differential between the bond yield and the interest rate will increase the yield.

Example of a bond investment with leverage (EUR)

- Initial amount: 30,000
- Credit line: 60,000
- New asset value: 90,000
- Initial return: 5.80%
- New net return: 14% of 30,000