

## Discount bonds generate income

If you're an investor in fixed-income securities, or if you're considering becoming one, you may wonder if and when it makes sense to buy a bond selling for less than its face value of \$1,000.

Discount Bonds are not a special type of bond. You almost always have a choice of investing in bond issues at various prices after they have been issued, no matter what kind of bond you buy — a government, corporate, or mortgage-backed securities issue can trade at a price above or below par value (\$100). Discount Bonds are simply bonds that can be bought at a price lower than par value; yet, because of their potential special tax consequences, they will appeal to certain types of investors. It is important that you understand how these bonds work to be able to determine whether they would be an appropriate addition to your personal portfolio.

Bonds trade for more or less than par value because interest rates in the economy as a whole are in a constant state of change. As interest rates change, the return (known as the yield) provided to investors by previously issued bonds must be constantly revised to remain competitive with new issues carrying current market interest rates. Since an older bond's interest rate was fixed

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**Dollars and Sense**



at the time the bond was issued, the only way its yield can be adjusted is to raise or lower its price. When the price falls in response to rising interest rates a discount bond is created.

Thus, a 25-year bond issued in 1967, when interest rates were much lower than they are today, carries only a 6 per cent coupon rate. Today new issues of a 25-year bond may have a coupon rate as high as 12 per cent. To attract investors, the bonds issued in 1967 must now be offered at a price much lower than par value. At maturity in 1992, the investor holding this 25-year bond will receive the full face value of \$1,000 — no matter what he paid for it. The difference between the purchase price and the maturity value

will be capital gains for the investor (provided that the investor is classified as an investor rather than a trader according to Revenue Canada guidelines). The interest payments, plus the capital gains combine to give the investor a yield competitive with other bonds.

Because the holder of a discount bond earns the greater portion of income from capital gains rather than interest, the after-tax yield can be more attractive. Using current rates as an example, provided an investor still has some portion of his capital gains exemption remaining, a discount bond yielding 12.7 per cent would have an after-tax yield of approximately 8.31 per cent where a Guaranteed Investment Certificate, with an interest rate of 11.5 per cent may only have a 6.1 per cent after-tax return (assuming a marginal tax bracket of 47 per cent). Obviously, the higher your tax bracket, the greater the benefit of investing in Discount Bonds. If you are an investor in a high tax bracket, you should consider Discount Bonds as a safe way to generate income and at the same time, reduce your tax liability.

Brian Slessor is an Investment Executive with ScotiaMcLeod. (416) 863-2825 (outside Toronto, call collect).

## Walter Clare appointed Superintendent of Bankruptcy

OTTAWA - Pierre Blais, Minister of Consumer and Corporate Affairs, has announced the

appointment of Walter Clare as Superintendent of Bankruptcy. The appointment takes effect

August 4, 1990.

The Superintendent of Bankruptcy is responsible for the regulation of the insolvency process, the licensing of trustees-in-bankruptcy, and the investigation of the conduct of bankrupts for possible offences under the Bankruptcy Act or the Criminal Code of Canada.

Mr. Clare was born in Sudbury, Ontario and educated in Ottawa. He began his career in the federal Public Service in 1964. Since 1968, Mr. Clare has held a number of administrative positions within the Bankruptcy Branch of Consumer and Corporate Affairs. He became Regional Manager, Bankruptcy, for the Pacific Region in 1975 and, as such, was responsible for the supervision of bankruptcy operations and investigations in British Columbia and the Yukon.

In 1978, Mr. Clare returned to Ottawa as Assistant Director, Consumer Insolvency, with responsibility for the co-ordination of bankruptcy policy and operation. In December, 1983, Mr. Clare was appointed Assistant Superintendent of Bankruptcy.

Mr. Clare has also been a lecturer on management and organization for the Public Service Commission.

Mr. Clare succeeds Yves Pigeon who retires on August 3, 1990.

## Agriculture Canada backs Grade A eggs

OTTAWA - The chance of eating a Canada Grade A egg containing Salmonella enteritidis in the interior of the shell is considerably less than one in a million, according to recent analysis conducted by Agriculture Canada.

This analysis, which was based on an extensive survey of Canadian laying flocks, found the prevalence of Salmonella enteritidis to be extremely low, about 0.7 egg per million eggs produced. And, while no other country has conducted as comprehensive a survey of laying flocks, incidence elsewhere is thought to be significantly higher.

Salmonella enteritidis is a bacterial infection found in many foods, including eggs, and can cause flu-like symptoms. The illness can be more serious in the very young, the elderly, pregnant women or those who are sick. However, even for this group, properly cooked eggs are easily digested and provide an excellent source of protein.

"No cases of human illness caused by Salmonella enteritidis have ever been linked to Canada Grade A eggs," Dr. John Kellar, Agriculture Canada Associate Director for Disease Control said.

Dr. Kellar's comments were supported by Hermy Lior, Chief of the National Laboratory of Enteric Pathogens, Laboratory Centre for Disease Control. Mr. Lior stated that: "Salmonella enteritidis is not a major problem in Canada."

Agriculture Canada is acknowledged to have one of the best inspection systems in the

world. Together with Health and Welfare Canada, the Canadian egg industry through its producer organizations at the national and provincial levels, works to ensure the Canadian egg supply is safe. The latest study is an example of the close monitoring to which eggs are subjected. Recently, Agriculture Canada has increased its surveillance to ensure imported egg laying hens and eggs do not introduce Salmonella enteritidis into the Canadian egg supply.

Nonetheless, consumers and foodservice industry employees have a responsibility to protect health by following a few simple guidelines, many of which are equally applicable to the handling and preparation of other foods. These include purchasing only clean, uncracked Grade A eggs, keeping eggs refrigerated until just before use, always washing hands before preparing foods and using clean utensils and work surfaces when preparing them.

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### Consumer warning

## Flying string highly flammable

OTTAWA - Ongoing testing by Consumer and Corporate Affairs Canada has shown that certain brands of "flying string" are highly flammable. These novelty products come in aerosol cans that shoot out a string-like streamer. Streamers from these products can burst into flame when in contact with a heat source.

Although importers have now stopped distribution of the flammable products in Canada, investigations by the Department indicate that some brands of the flammable products are still sold in Canada. "Flying string" packaged under the name of Super String and bearing lot numbers V002-1, V005-2 and V008-3 has been sold recently in Canada and is known to be highly flammable.

As flammable "flying string" may appear on the market from time to time, consumers are urged, for greater safety, to use any "flying string" aerosol as though it may be flammable.

These products should not be used by children. They should never be used near matches, cigarettes, birthday candles or other flames, or heat sources such as heaters. Safety warnings on the can should always be followed.

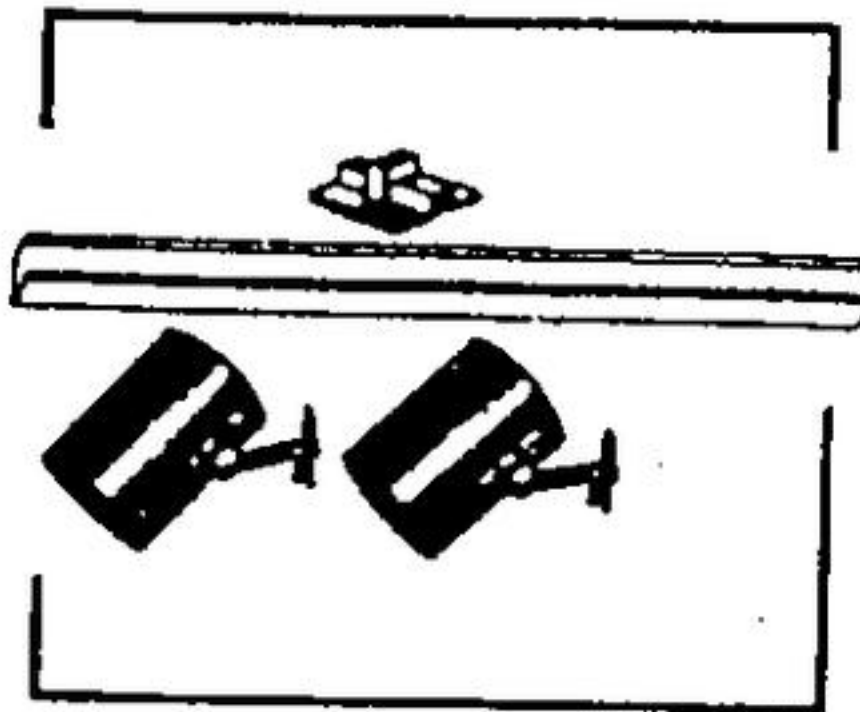
Consumers should dispose of any know flammable product by spraying the contents into a waste container away from flames or heat sources. The empty container can then be thrown into the garbage, but the cans should not be punctured or disposed of in an incinerator or trash compactor.

"Flying string" was the subject of a Consumer and Corporate Affairs warning bulletin on February 23, 1990 and a news release on March 9, 1990.



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