

**To:** Jeffrey Epstein[jeevacation@gmail.com]  
**From:** Grace Reksten Skaugen  
**Sent:** Fri 10/4/2013 11:57:01 AM  
**Subject:** Re: use this chart .

OK, so my question was simply if I expect I may have to sell before maturity and I expect interest rates to, say, rise, which of the two holdings should I choose? Given that the low coupon bonds will be subject to a greater loss in value I should choose the high coupon ones. But if I hold to maturity, there is no difference. (These expectations could, I guess with some risk, be used in interest rate anticipation swapping.)

Thanks for clarifying!

Grace :-)

PS

I think the last part of your email below may have gotten lost?

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**From:** Jeffrey Epstein <jeevacation@gmail.com>

**Date:** Mon, 30 Sep 2013 14:23:54 +0200

**To:** Grace Skaugen <[REDACTED]>

**Subject:** Re: use this chart .

I understand the question, the answer is dynamic. . lets assume from your question . initial offering . high coupons and low CANNOT be same quality. risk maturity,. as posed by your question. in the period before maturity, the bonds will slide along different curves. as per my chart. therefore measured prior to maturity , it will depend on the proportion of the coupon to the increase. ex . if two days after the purchase interest rates were to go up. the lower coupon bond would drop down more in price and then the high coupon. Therefor the question of which is better , must be asked with a time component. ie after two weeks which portfolio seems to do better marked to market. however if held to maturity , the capital appreciation would make up for the lower temp price. . and the yield to maturity , on both would still remain the same. a different combination of capital and interest. HOWEVER< by definition at the moment in time when you are measuring yield. if they are the same . their risk is also the same. just a different tax treament for capital gain vs interest income. if you want to

On Mon, Sep 30, 2013 at 6:51 AM, Grace Reksten Skaugen <[REDACTED]> wrote:

Dear Jeff,

I think our friend Terje can now add to this many titles that he deals in bonds..

Firstly, thank you so much for having me to your beautiful house and for the ride to the airport!

Much appreciated. I have to say that I have smiled many times at the thought of the tiger and the dog. Together they are very funny!

Bonds:

So thanks to you I now believe that my long standing (probably stupid) question will be answered.

Ref. your chart below:

My SIMPLE question is about this scenario:

- I have one million USD and you have one million USD and we both decide to buy a holding of bonds *with the same rating* (for the sake of argument)
- You buy bonds with a higher coupon, holding A
- I buy bonds with a lower coupon, holding B
- At the time of purchase holding A= holding B (USD 1m)

The question:

IF the interest rate scenario going forward is pointing UP or DOWN, will those two holdings not have a different value - at a given later point in time - depending on the development of interest rates (your chart)?

So if I am very clever and guess correctly, I will prefer one holding before the other. Or, God forbid, if I KNOW the way rates will move.. (Your friend Larry had he gone down the other path?..) But theoretically there is no difference, and therefore they have the same price..

I think I am probably misunderstanding something here, but I am sure you will clarify it for me.

Best, Grace 😊

PS

The enclosed scan is from when I originally posed the question, as a summer student at NYU. Before you extinguish the validity of the question, I will in defense, say that my finance professor then did not have an answer. :-/ (Maybe she did not really listen?)

**Fra:** Terje Rod-Larsen [mailto: [REDACTED]]  
**Sendt:** 30. september 2013 03:55  
**Til:** [REDACTED]  
**Emne:** Fw: use this chart .

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**From:** Jeffrey Epstein [mailto:[jeevacation@gmail.com](mailto:jeevacation@gmail.com)]  
**Sent:** Sunday, September 29, 2013 05:01 PM  
**To:** Terje Rod-Larsen  
**Subject:** use this chart .

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