

Perpetual knowledge bank series: principal

By Perpetual Asset Management

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The principal amount or principal is the original amount of investment in an asset, separate from any earnings or interest accrued. If an investor is borrowing money, then the principal is the actual amount borrowed before interest begins to apply. The principal is therefore the

foundation upon which everything else is built on and is crucial to understanding both lending and investing practices.

In the case of fixed income investing, a bond's face value is also known as the principal. This is the amount that a bond issuer owes the bondholder once the bond reaches maturity, separate from coupon payments or interest payments. Fluctuations in the bond market mean the purchase price of a bond may be greater or less than repayment of the principal amount at the established maturity date. For example, a \$1,000 bond can sell for far more than this amount if it's in high demand, but its principal would remain the same.

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