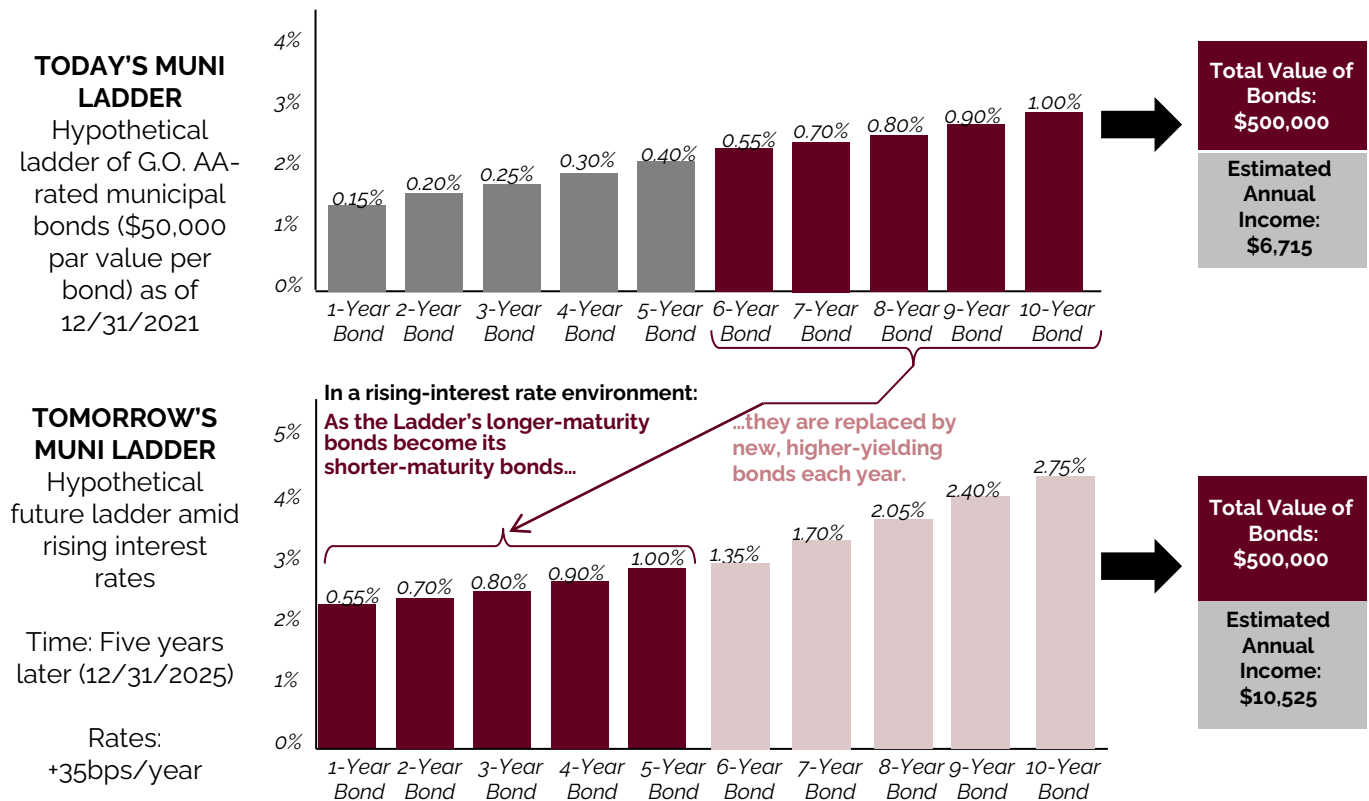


Advantages of Ladders

One of the main advantages of laddered portfolios is that they allow clients to build consistent income while diversifying away some of the risk of rising interest rates. Since rising interest rates cause bond prices to fall, investors that do not hold bonds to maturity can realize losses in their accounts from rising rates.

It might be helpful to run through an example. Suppose Bob puts \$10,000 into one municipal bond that matures in 5 years, while Mary invests \$2,000 in 5 bonds with different maturity dates. If rates rise, Bob is stuck with a lower yielding bond, while Mary can reinvest the proceeds from her maturing bonds into higher yielding securities. And if rates fall, only a small portion of Mary's portfolio matures each year, so she is not subject to the lower rates across all of her holdings.

Even if interest rates don't rise much further, the yield of an existing ladder may move higher over time – a potential benefit that many investors overlook. Once a ladder is in place, the rungs of the ladder only need to be replaced when bonds mature. Consider that as bonds "roll down" the ladder over time, a two-year bond will become a one-year bond, a three-year bond will become a two-year bond, etc. Thus, as time passes, each rung will typically be filled except for the longest maturity, where reinvestment will be focused. Therefore, even if the municipal yield curve remains relatively unchanged, the portfolio's average purchase yield should move toward the yield of the longest maturity bond in the laddered portfolio and the tax-efficient income stream will thus increase over time.



Projected yields and annual income based on hypothetical ladders of general obligation 'AA' rated municipal securities.