

What Is a Bond Ladder?

A bond ladder is a strategy involving the purchase of bonds that have staggering maturity dates. Instead of maturing all at once, the bonds mature in intervals. This may help a bondholder to be less susceptible to changes in interest rates.

For example, assume you set up a five-year bond ladder. You could purchase five different bonds with maturity dates of one, two, three, four, and five years, respectively. When the first bond matures after one year, you would purchase a new five-year bond to keep the ladder intact. If interest rates have risen, you benefit from having cash available to invest in a new bond at the higher rate. If interest rates have fallen, only a portion of your investment would be subject to the lower rate. In addition to interest-rate risk, bonds are subject to inflation and credit quality risk.

A bond ladder has no effect on the risk of the bonds themselves, but using this strategy may help put you in a better position potentially to benefit when interest rates are high and to reduce your bond portfolio's exposure to investment rate risk when rates are low.

By investing in a bond ladder instead of a single bond, you keep your money in motion and have access to a portion of your investment on a regular basis. This may help you structure your portfolio to withstand the inevitability of interest-rate fluctuations.

The return and principal value of bonds fluctuate with changes in market conditions. If sold prior to maturity, a bond may be worth more or less than its original cost. Investments seeking to achieve higher returns also involve a higher degree of risk.

The information in this newsletter is not intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Broadridge Advisor Solutions. © 2018 Broadridge Investor Communication Solutions, Inc.