

Fixed income ladders



Wealth
Management

Take the guesswork out of interest rates

Investing in the fixed income securities can be challenging, because every decision requires you to evaluate credit ratings, maturities and ever-changing interest rates, among other considerations.

Projecting interest rates is one of the most difficult considerations. However, using a portfolio strategy called “laddering” may help take the guesswork out of fixed income investing by positioning your portfolio to take advantage of opportunities when interest rates go up and reduce risks when interest rates go down.

What is a fixed income ladder?

A fixed income ladder is a portfolio of fixed income securities with a series of staggered maturities. The objective of laddering is to systematically schedule maturities so a portion of the portfolio matures at regular intervals and becomes available for reinvestment in different interest rate environments.

With this approach, you can take advantage of any increase in interest rates by reinvesting these amounts at the higher rate. Should interest rates fall, you can lessen the drop in returns by having the remaining amounts still invested at higher rates.

Illustrated above is a hypothetical five-year, fixed income ladder. Yours may consist of any combination of corporate bonds, U.S. agency and Treasury securities, municipal bonds, or certificates of deposit.

		Year 1	Future portfolios			
Initial ladder	One-year security	3.45%	Year 2			
	Two-year security	3.50%	3.50%	Year 3		
	Three-year security	3.55%	3.55%	3.55%	Year 4	
	Four-year security	3.60%	3.60%	3.60%	3.60%	Year 5
	Five-year security	3.65%	3.65%	3.65%	3.65%	3.65%
Hypothetical reinvestment rates	Five-year security		3.65%	3.65%	3.65%	3.65%
	Five-year security			3.75%	3.75%	3.75%
	Five-year security				3.50%	3.50%
	Five-year security					3.55%
Blended return		3.55%	3.59%	3.64%	3.63%	3.62%

Yields shown are for illustrative purposes only and do not reflect current or future market conditions

When building your ladder, the key is to have securities mature in one-year increments. This schedule of maturities allows you to ladder across the investment horizon (the initial ladder). To maintain your ladder, purchase a new five-year fixed income security to replace the maturing one, thus keeping the maturities staggered in your portfolio.

Ladders may offer peace of mind

As demonstrated in the sample ladder, when continuing to reinvest in this manner, you gain several important benefits: interest rate diversification (no concentration in a single maturity), lower overall volatility, short average maturity, and higher blended return (the reinvestment ladder).

Ladders provide interest rewards

Fixed income ladders provide predictable interest income and can be structured to provide monthly or quarterly payments. Rather than spend

these payments, investors may choose to reinvest the interest payments from the portfolio in the purchase of the replacement bond, thus compounding their investment returns.

Gain confidence in your financial future

Fixed income ladders are a prudent diversification strategy for fixed income investors. The regular maturities and interest rate payments provide a disciplined approach for investors as they will have funds to invest at higher (and lower) rates. This can help to lessen the impact from interest rate fluctuations and reduce risks to investors. To find out more about fixed income strategies and bond ladders, please contact your RBC Wealth Management® financial advisor.

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