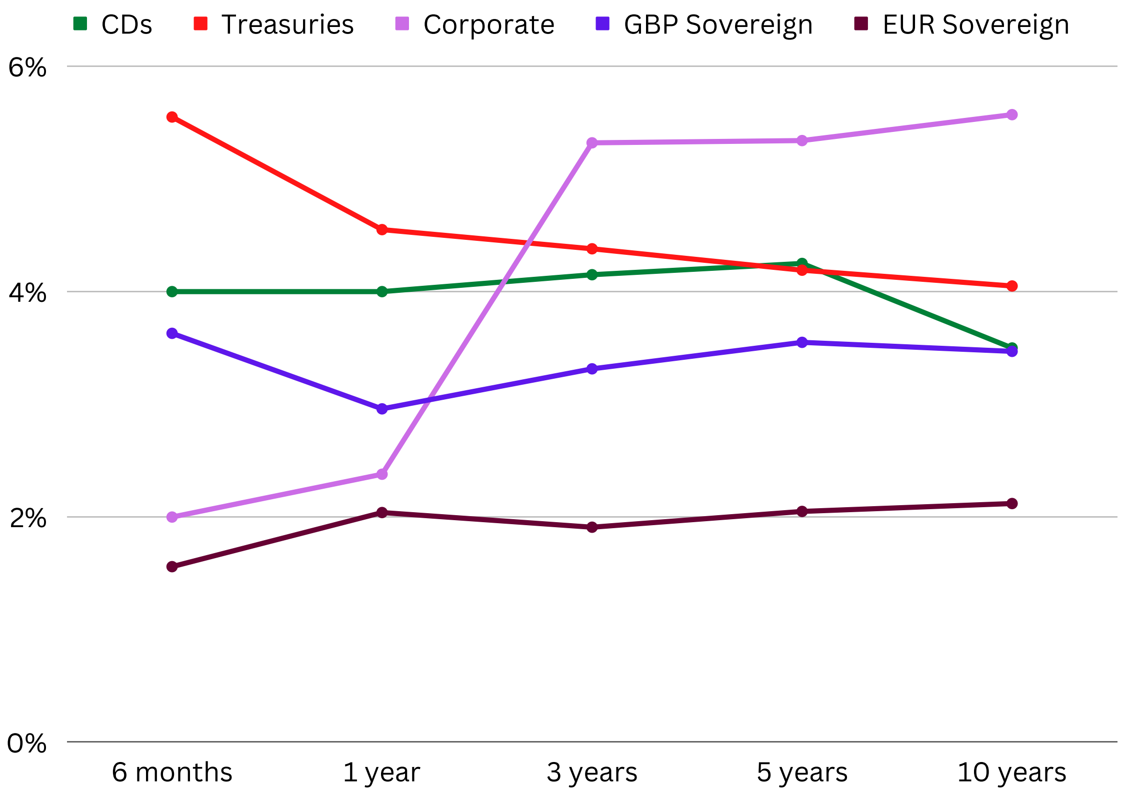
“LADDERING” FIXED-INCOME INVESTMENTS

DUNHILL FINANCIAL

Investors who are seeking regular returns and a promise of the return of principal often choose to include fixed-income investments, such as certificates of deposit (CDs), in their portfolios. Conservative fixed-income investments, particularly government securities and federally insured CDs, are generally considered less volatile than other investment vehicles, such as common stock and, as a result, they tend to provide lower rates of return. Fixed-income investments can be considered more attractive in times of high inflation, as this environment pushes bond prices down, which in turn pushes their respective yields (i.e. what you receive in the end) higher, due the bonds trading at a discount.

One technique commonly used to balance the return and risk of fixed-income assets with an investor's time horizon is laddering—a method of maintaining a series of fixed-interest investments with different maturities.



How does a bond ladder work?

With a "laddered" portfolio, CDs come due in staggered intervals, at which time they may be cashed or reinvested. Because investments with shorter maturities often have lower interest rates, laddering looks to provide an investor with the financial benefits of long-term interest rates, but the flexibility of shorter-term maturities.

Each CD acts like a rung on a ladder, so that rather taking one big step—such as investing in a single, long-term savings vehicle—you can take smaller steps toward long-term savings goals. Furthermore, stepped maturity dates may provide liquidity options that enable you to hold a security until its date of maturity, which may protect against early withdrawal penalties. For illustrative purposes, consider the following hypothetical example, which assumes no federal taxes or fluctuation in interest rates and does not represent the performance of any particular investment.

Let's say you want to invest a part of your savings in a portfolio that will provide you access to your funds in the event you want to make a significant purchase (e.g. a car) in the near term. You choose to deposit $10,000 into a laddered CD Portfolio and reinvest any proceeds as they come due until you need the funds. To start off, you split the principal between five CDs, each with different maturities and interest rates. This means that, every year for the next five years, one of your CDs will mature and you can choose whether to continue reinvesting or using the funds as you see fit.

Principal	Maturity	Interest	Total	Year Due
$2,000	1 Year	2.5%	$2,050	2023
$2,000	2 Years	3.5%	$2,142	2024
$2,000	3 Years	4.5%	$2,282	2025
$2,000	4 Years	5.0%	$2,431	2026
$2,000	5 Years	5.5%	$2,614	2027

Upon maturity of the one-year CD, Alice pockets the interest earned and purchases a five-year CD with a higher interest rate that will mature in 2016. When her two-year CD matures, she takes the earnings as income and, with the original principal, purchases another higher yielding five-year CD, which will mature in 2017. While Alice is buying CDs with longer maturities and larger returns, one of her CDs will still reach maturity every year, providing her either access to her money, or the opportunity to reinvest. It is important to plan your investment strategies in light of your long-term goals. Laddering offers fixed income investors a way to manage certain risks and add liquidity to their portfolios.