

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



How Safe Is a Bond Ladder?

By: www.ProfitableInvestingTips.com

The rapid collapse of Silicon Valley Bank (SVB) gave us a lesson about how [long term bonds](#) can be an investment trap. During periods of rising interest rates, investors are generally wise to stagger the maturities on corporate bonds, US Treasuries, or bank CDs. How safe is a bond ladder compared to other investment choices? To what degree is an investor giving away investment potential in return for investment security? And when should an investor consider transitioning out of their bond ladder?

What Is a Bond Ladder?

A bond ladder is a collection of interest bearing investments with a range of maturities. This approach allows the investor to take advantage of higher interest rates for longer maturities while it keeps them from being locked into current rates for all of their bonds as rates rise. The mechanics of this approach are that an investor buys bonds with staggered maturities and when the first bonds mature they can either be renewed with the same maturity or converted to a longer maturity on the next step of the bond ladder.

Advantages of a Bond Ladder

At a time when interest rates are going up, a recession is in the works, and the stock market looks uncertain, interest bearing investments with guaranteed principal are a way to [invest without losing any money](#). At least if bonds or CDs are held to maturity their dollar value is not diminished. The problem that we saw with SVB was that they needed cash but held long term bonds that were worth about half of their face value if sold immediately. When an investor has a bond ladder they always have a bond or two that is reaching or soon to be reaching maturity which gives them a steady supply of cash when required. And when the investor does not need cash they can reinvest the money at a maturity that puts it on the next step of the ladder. When interest rates are going up this means the investor will be reinvesting at a substantially higher rate of interest because they are buying a longer maturity and because all rates are higher than when the bond that they are reinvesting money from was issued.

Bond Ladder Risks

Not everyone thinks that bond ladders are safe. [Bond ladder risks](#) include loss of income producing potential to the extent that bonds in the ladder are “trapped” at their rate when issued as rates go up. The ladder approach allows part of the bond portfolio to be renewed at higher rates but only a portion. However, the alternative within the bond market is to continually buy and sell bonds to keep up with interest rate increases or pay someone as in a mutual fund to do that for you. And if and when the stock market starts going up again you are trapped in bonds that are not producing the same income as stocks in a rising market. And if one tries to build a bond ladder with callable bonds, they may find the bonds with the best yields called away from them while the ones with the worst yields remain in what is left of their ladder.

Worst Investment Alternative Except for All of the Others

Winston Churchill said that democracy was the worst form of government except for every other system that had ever been tried. The point being that nothing is perfect and that you need to consider the alternatives when choosing something. This applies to using a bond ladder. You are not going to use a bond ladder when interest rates are excessively low but rather invest in the stock market. If you do buy bonds you will stick with short maturities only. The exact time when a bond ladder works best is when rates are going up, stocks are not a good option, and your highest priorities are to protect the dollar value of your portfolio and earn a secure return on your investment.

Anyone who had money in Bitcoin before the start of [crypto winter](#) or saw their share price dwindle as Amazon.com become the first company to ever [lose \\$1 trillion in market capitalization](#) should understand this.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

Educational Resources

**Click the links below to get your
FREE training materials.**

Free Weekly Investing Webinars

Don't miss these free training events!

<http://www.profitableinvestingtips.com/free-webinar>

Forex Conspiracy Report

Read every word of this report!

<http://www.forexconspiracyreport.com>

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

<http://www.candlestickforums.com>

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.