Fixed Income Quarterly

Market perspectives from Fixed Income Solutions

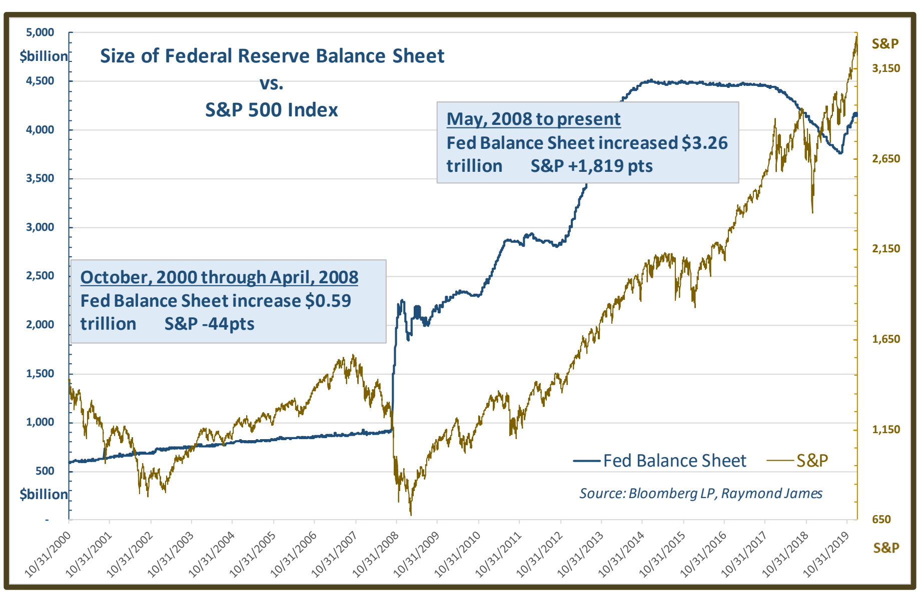
Allocation, Allocation, Allocation

Location, location, location is a well-recognized catchphrase in the real estate world and it packs a significant message: a home's location has an immense impact on a property's value. Perhaps an appropriate and relevant investment catchphrase is *allocation, allocation, allocation*. A disciplined strategic investment foundation is the financial rock supported by an appropriate allocation of assets. A strategy without growth assets will likely keep the portfolio underdeveloped. A strategy without fixed income may have excessive risk and the potential for collapse. Finding the appropriate allocation balance provides a blend of capital preservation and optimal growth. It can have an immense impact on the value of the portfolio.

The Latest …

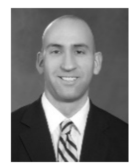
There's a lot of noise in the markets, the latest being the coronavirus. Of course all market moving news must be taken seriously, whether it is fundamental in structure or psychological by nature. Concern about low yields or over-exuberance about record-level equities can understandably entice investors to abandon a disciplined strategy. The importance of staying disciplined and appropriately allocated cannot be overstated as we focus the quarterly on this topic.

The central banks of the world have remained active and accommodative. The 4 key central banks have inundated the markets with cash while building their combined balance sheets to over $20 trillion. As long as they pump money into the markets, expect interest rates to remain low.



FIXED INCOME QUARTERLY CONTRIBUTING STRATEGISTS

DOUG DRABIK



DREW O'NEIL

ROB TAYLOE

ROB TRIBOLET

IN THIS REPORT

What's the Treasury Curve Telling Us?

Three of the past four curve inversions preceded a recession. The closeness of the inversion in late 1998 preceded the more sustained inversion 14 months later, rendering an argument that it started just a bit early. Regardless, circumstances change and previous occurrences are certainly no guarantee of anything in the future; however, there are salient points of information that can assist or support today's investment decision-making. If there is any key takeaway, it is that appropriate allocation should never be abandoned.

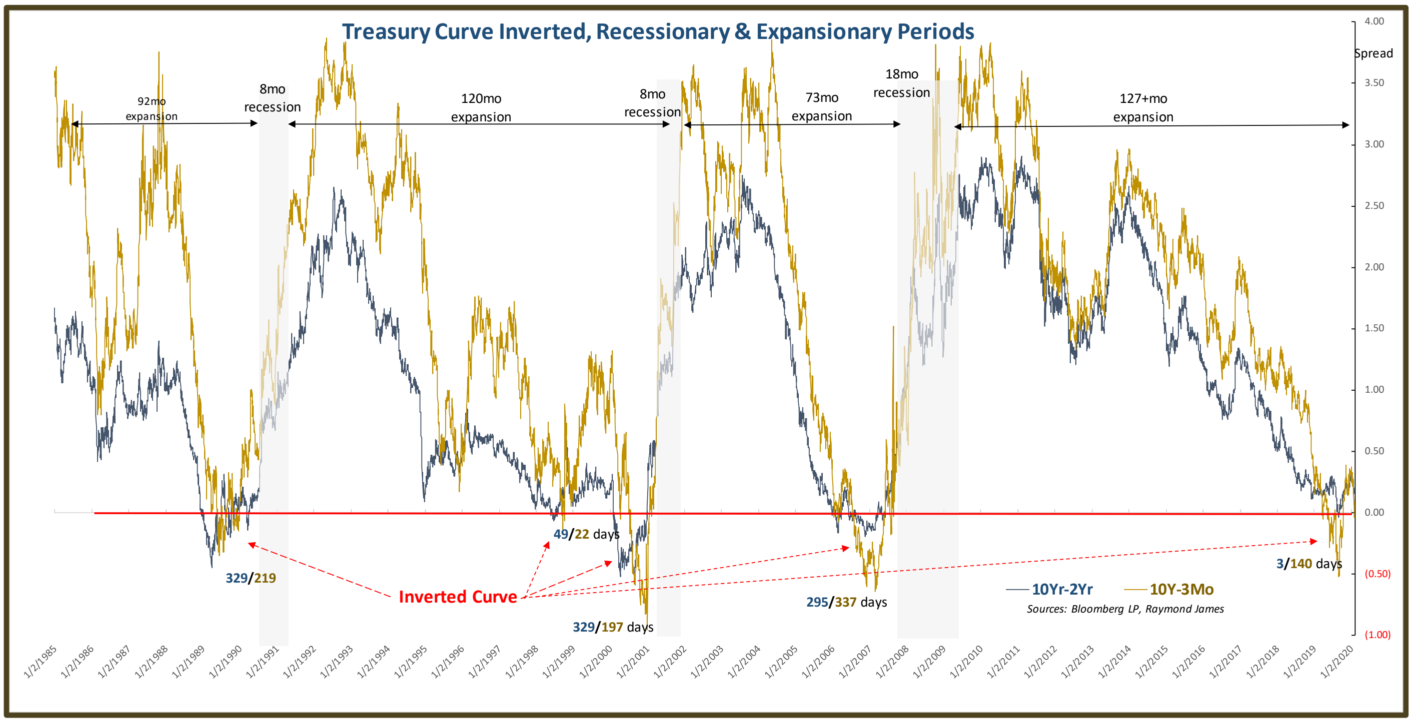
History has demonstrated the inability of financial experts and/or everyday investors to incessantly predict future rates. I am unaware of any individual that had the foresight to layout the last 38+ years of general interest rate decline. In fairness, each moment in history is truly unique and the variables that influence investor behavior and market shifts are numerous and often complex.

Conversely, investment planning does not need to be complicated to be successful. Divide planning into 2 components: strategic and tactical strategies. Peculiarly, the more complex tactical strategy is the more practiced discipline. Tactical strategy implies short-term thinking, beating the market and/or anticipating and reacting to the moment's current event or data release. Think "trading" and "playing" the market. Tactical strategies often use growth instruments with higher risk and greater potential rewards such as real estate, MLPs and stocks.

"If there is any key takeaway, it is that appropriate allocation should never be abandoned."

Strategic planning is more unassuming, long-term and fundamentally oriented. Strategic planning disregards the moment in lieu of an investor's long term goals and personal benchmarks. Strategic planning often integrates individual bonds designed to preserve capital and provide predictable income.

The 3mo-to-10yr Treasury spread has flattened by 28bp (37bp to 9bp) and the 2yr-to-10yr by 15bp (35bp to 20bp) year-to-date (2/6/20). The long end of the Treasury curve is more influenced by investor expectations. Low inflation, a slowing economic growth pattern and lower global rates all suggest that the markets are anticipating lower rates for an extended period. In addition, U.S. aging demographics, ~$13 trillion negative world debt and a large percentage of U.S. debt refinancing contribute to keeping interest rates down. Last, and certainly not the least important, central bank intervention has pulled interest rates down. The four key central banks (Peoples Bank of China, Bank of Japan, European Central Bank and the Federal Reserve) have grown their combined balance sheets to over $20 trillion, money that has propped up the bond and equity markets for years now.



Things That Can Make Interest Rates Go _______

Some investors can't help themselves from trying to outguess the market and anticipate future interest rates, thus getting the edge on higher returns. It's a time-proven fool's game that can lead to the disastrous loss of hard-earned investor capital. The influencing variables are plenty and can be fundamental economic statistics or psychological in nature. A helpful challenge might be to list variables that can lead to higher interest rates on one side of a ledger and all the variables that can lead to lower interest rates on the other side of the ledger. This year seems to be weighted with events that could keep interest rates down for an extended period.

Can Make Interest Rates Go _______

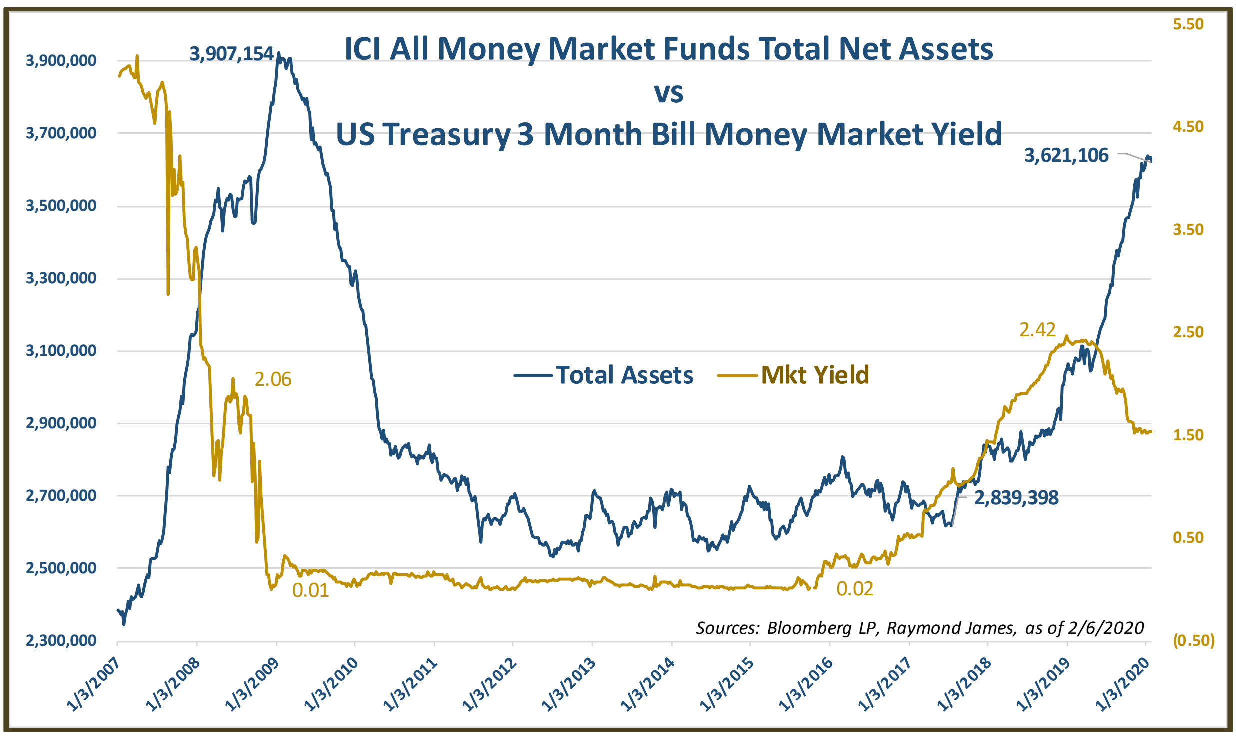
Up	Down
US/China Trade Euphoria	US/China Trade
Republican Congress/President	Global lack of inflation
Runaway Corporate Earnings	Interest rate disparity
	Negative yielding debt
	CENTRAL BANK EASING
	Aging population
	Democratic Congress/President
	United Kingdom's Restructuring
	Refinancing 60% US Debt next 4yrs

So What Are You Waiting For?

The old cliché that fear and greed control investor approach packs a lot of punch. Note the massive inflow of funds *(graphed below)* into money market assets. Since January 2018, total net assets in money markets has increased 27.5%, implying that investors' fears of low rates and missing out on the inevitable swing to higher interest rates has them shifting bundles of capital into the "wait-and-see" posture that money markets can provide.

In a flat interest rate environment and with short-term interest rates relatively high vs. longer term alternatives, it doesn't seem like a bad idea. However, history has been unkind in similar past scenarios. Back in 2007, there was a comparable upsurge in money market funds. Money market rates were north of 5.00% in April 2007 boasting higher rates than ~4.50% offered by 2-year Treasuries. By April 2008, 5.00% money market rates plunged to ~1.00%. Had an investor locked into 2-year Treasuries at 4.50%, they would have benefitted by avoiding the reinvestment risk that troubled money market investors.

Duration risk is only one characteristic to consider. A point of reality is that duration has been an investor's friend during the last 38+ years of general interest rate decline. Meaning, longer duration investments have far outperformed shorter duration assets compiled over similar time spans. Reinvestment risk has been a more prevailing challenge for fixed income planning. It is not surprising that a simple laddered approach continues to mitigate interest rate risk and remains a strong option in today's interest rate environment.



What if We're Wrong and Interest Rates Rise?

Per the last couple of articles, we are not anticipating rising interest rates anytime soon. But what if we're wrong? We read all the time how you don't want to own bonds in a rising interest rate environment. Prices fall and our bonds get murdered. Right?

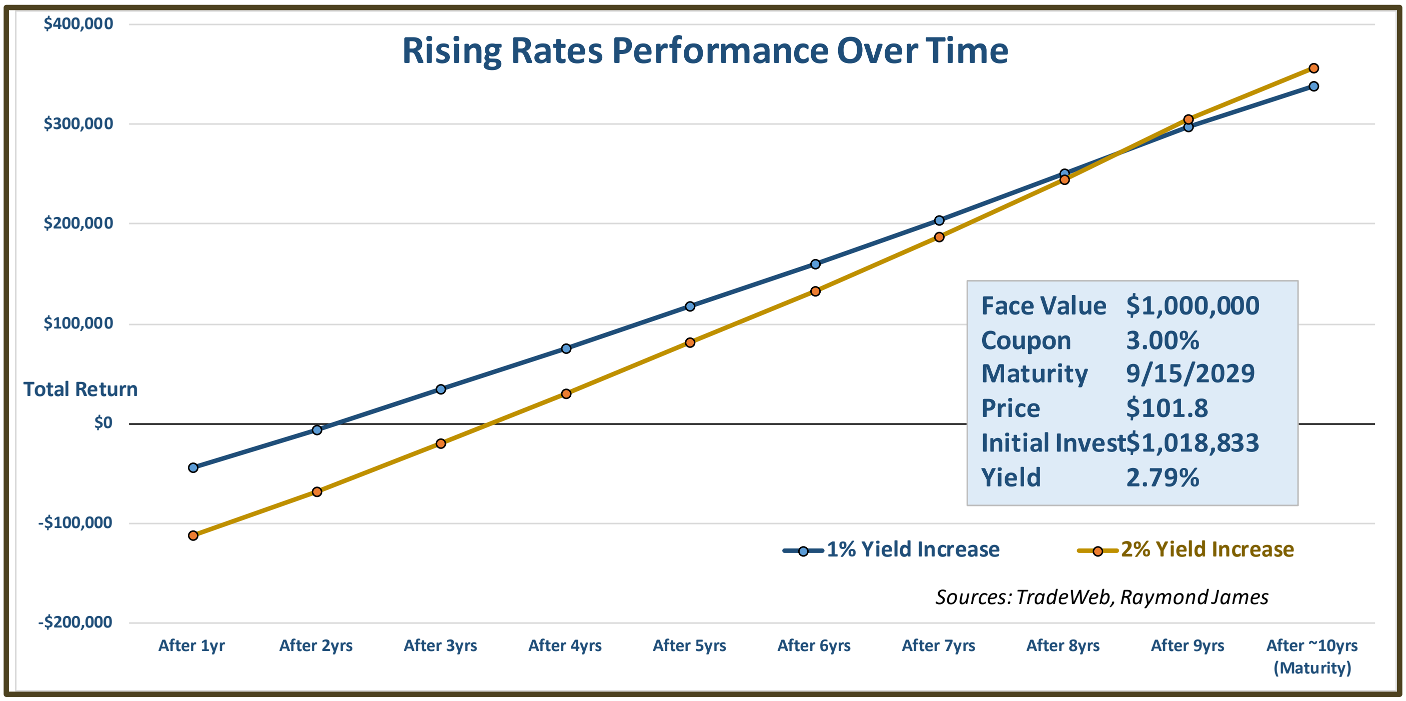
Well ... not exactly. First of all, bonds are typically part of the strategic, long-term plan. Let's put to example the difference between a short-term tactical stock play and a strategic long-term bond holding.

Suppose you buy 1000 shares of XYX stock at $100/share ($100,000). A 50% market pullback occurs, knocking the price of XYZ to $50. You now have a $50,000 value. If XYZ experiences a 50% surge, you only recover ½ of your loss [$50 + (50% x $50)] = $75. The market actually needs to appreciate XYZ 100% in price just to break even on the initial investment and fully recover from the 50% pullback.

Total return considers the appreciation/depreciation plus the cash flow and its reinvestment generated throughout the holding period of a security. When you hold a bond to maturity, the total return becomes less about price movement and more about the cash flow generated.

The graph below depicts the total return for a 10-year bond in 2 different rising interest rate scenarios. Rising interest rates translate to falling bond prices which will impair the bond's total return in the initial years held. The early cash flow returns do not necessarily offset a large price decline. However, as time passes, cash flows begin to add up and price becomes less of a factor.

By the end of the 10 year holding period, any interim price change becomes irrelevant and the greatest benefit is derived from the bigger interest rate rise. The 2% yield increase scenario is projected to provide ~35% holding period return over the 10 year holding period. It can sometimes be misunderstood that the more interest rates rise, the *worse* the return. Contrary to this belief, the scenario in which rates rose more produced the best total return. Although the coupon is fixed, the reinvestment of cash flow improves as rates rise.



Now suppose you bought $100,000 ABC bond at par at a 3.10% yield, producing $3,100 of annual income. An interest rate rise pushes rates up 60bp and drops the price of ABC from $100 to $94. The cash flow and income on this holding … remains $3,100/annually.

The interim price movement caused by interest rate swings does not affect the return on a bond held-to-maturity. The price of ABC could drop, go up, or stay the same and it would not affect your cash flow, income or the date the $100,000 face value is returned. All of these benefits are known from the moment of purchase and all of these benefits, barring default, do not change.

Investors do not typically purchase individual bonds for short-term values but as part of a long-term strategy providing preservation of principal and the benefit of holding period income.

Anchoring Bias – Don't Let it Sink Your Strategy

Investors, unfortunately, do not dictate the purchase price of an investment in the marketplace. Actually, the opposite is true: the market determines the price. An investor could wish all day for the market on Amazon stock to sell at a price of $1,000/share (it is currently trading at ~$2,000/share), but no matter how hard the wish, it's not going to happen. Amazon has not traded in the $1,000 range since 2017. Does this mean that investing in Amazon at $2,000 is not a good idea and it might be advantageous to wait until it drops back down to $1,000 before investing? Probably not. Amazon might never again drop down to that price again. If Amazon stock fits the overall allocation and long-term plan, then purchasing it at $2,000 can be a perfectly fine decision.

The same logic applies to investing in fixed income. Just because the 10-year Treasury traded at 5% back in 2006, does not mean that waiting until that yield level returns is a valid option or strategy today. Yields have been falling steadily for over 38 years. No one knows what the future holds, but there is no certainty that yields will return back to 2006 (or 1996, or 1986…) levels again in our lifetimes, simply because we want to see those levels or because we remember when that interest rate environment existed.

Viewing current price or yield levels and making a judgement of value based on what might be considered a "normal" level in the past is referred to in psychology as an ***anchoring bias***, meaning that our minds are "anchored" to the past value and use it as a benchmark to determine value. Every investor is going to have a different "anchor" for interest rates. This is commonly tied to some point in the past that our minds are anchored to, but could also be linked to what "experts" claim a *normal* level for interest rates is.

When making the decision as to what to invest in and when to invest, investors are oftentimes letting these mental anchors guide their decisions, which can be very dangerous. It is easy to let this mentality lead to allocating money that should be allocated to fixed income into other asset classes because as the investor, we want to wait until yields return to more *normal* levels. These *normal* levels may never return, leading to a chronic over-allocation into riskier assets. It is important to remember that each asset class has its purpose in a portfolio. Fixed income is often meant to be the stable ballast that a portfolio is structured around, focused on consistent income, cash flow, and return *of* principal (not necessarily return *on* principal); something that fixed income substitutes often struggle to replicate.

A prudent investor should look around at the current landscape and assess where the best current value is and determine how to best take advantage of the current situation to help reach one's long-term goals. Instead of waiting and trying to predict when yields will return back to desired levels, investors should be asking more useful questions. Taxable or municipals bonds? Where on the yield curve should I position? What are my liquidity needs? What is my risk tolerance? What is the long-term goal for my portfolio? Answering these questions can be much more productive than letting your brain be pulled on by an anchoring bias and wishing things were like the good ole days.

KEY TAKEAWAYS

- ***Anchoring Bias*** refers to a past value that is anchored in our mind and biases our current assessment. This is not necessarily a good measure or benchmark.
- Prudent investing dictates assessing the current economic landscape.
- Ask useful questions to help formulate current strategies.

Case Study 1: The New Yorker Credit Boost

THE SCENARIO

A New York client was looking at potential credit issues within the portfolio. The client considers themselves ultra risk-averse and looks only at high-quality municipal bonds, Treasuries or insured CDs.

CONSIDERATIONS

Several municipal positions dropped a couple of notches in credit rating during their holding period. The client's credit quality was solid investment-grade; however, the client is risk-averse and ultra-conservative. A deeper analysis revealed several concentrated positions. The suggestion was to reduce exposure to no more than 5% in any one obligor.

THE STRATEGY

- Several positions that dropped to A rated credits were sold at a profit and replaced with an average of Aa1/AA+ credits.
- New York is a high taxed state and all swaps went from New York issues back into New York issues capitalizing on the best tax-equivalent yield.
- Although the purchases extended in maturity, the call structures and high coupons kept the duration to a minimal extension.
- Yields were comparable.

Transaction Summary

Averages	Sells	Buys	Change
Coupon	5.00%	5.00%	-
Maturity	3.76 yrs	9.09 yrs	+5.33 yrs
Price	114.407	121.41	+7.003
Modified Duration	3.44	5.06	+1.62
Yield to Worst	1.08%	1.09%	+1 bp
Yield to Maturity	1.08%	2.37%	+129 bp
After Tax YTW*	1.08%	1.09%	+1 bp
Taxable Equivalent YTW*	2.14%	2.16%	+2 bp
Average Rating	A1/A	Aa1/AA+	↑

**Tax Bracket: 37% Federal + 3.8% Medicare Surtax + 8.82% NY State Tax*
This example is for illustrative purposes only.
Actual investor results will vary.

Case Study 2: Duration Dropper

THE SCENARIO

The investor wishes to lower the duration of their portfolio. The portfolio was built with municipal bonds over the years. Their tax bracket has dropped in recent years.

CONSIDERATIONS

Although the Treasury curve is flat, credit curves (corporate and municipal) are steep. Swapping into shorter duration bonds challenges a trade-off of face value, cash flow, yield or some combination of these attributes. Short duration municipal bonds are relatively expensive versus investment-grade corporate alternatives.

THE STRATEGY

- Sold longer duration municipal bonds which created some taxable gains. The longer holdings had call structures ~2025-2026.
- Purchase strong investment-grade A rated or better corporate bonds. Maturities 2022-2025.
- Annual cash flow increased.
- Shortened duration from 5.3 to 3.1.
- The client dropping to the 24% tax bracket created a benefit on the proposed buys (corporate) tax equivalent yield to worst of ~24bp.

Transaction Summary

Averages	Sells	Buys	Change
Coupon	5.00%	4.90%	-10 bp
Maturity	8.10 yrs	3.51 yrs	-4.59 yrs
Price	122.33	108.35	-13.98
Modified Duration	5.30	3.14	-2.16
Yield to Worst	1.19%	1.84%	+65 bp
Yield to Maturity	2.00%	1.87%	- 13 bp
After Tax YTW*	1.12%	1.29%	+17 bp
Taxable Equivalent YTW*	1.60%	1.84%	+24 bp
Average Rating	Aa3/AA-	A2/A-	↓

**Tax Bracket: 24% Federal*
This example is for illustrative purposes only.
Actual investor results will vary.

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Case Study 3: Capital Preservation Quest

THE SCENARIO

A couple entering retirement seeks to balance out their portfolio by adding high quality fixed income as a hedge against equity volatility. Although the investor seeks returns, the ultimate goal is return of capital. Short-term CDs will have minimal volatility and credit risk, keeping volatility low; however, investing short-term is not necessarily the best way to hedge equity volatility.

CONSIDERATIONS

A standard investor desire is to optimize income. In this case, their ultimate goal is safety of principal and return of capital. Given the investor's openness to investigate options, we explore higher duration bonds to hedge the rest of the equity portfolio.

THE STRATEGY

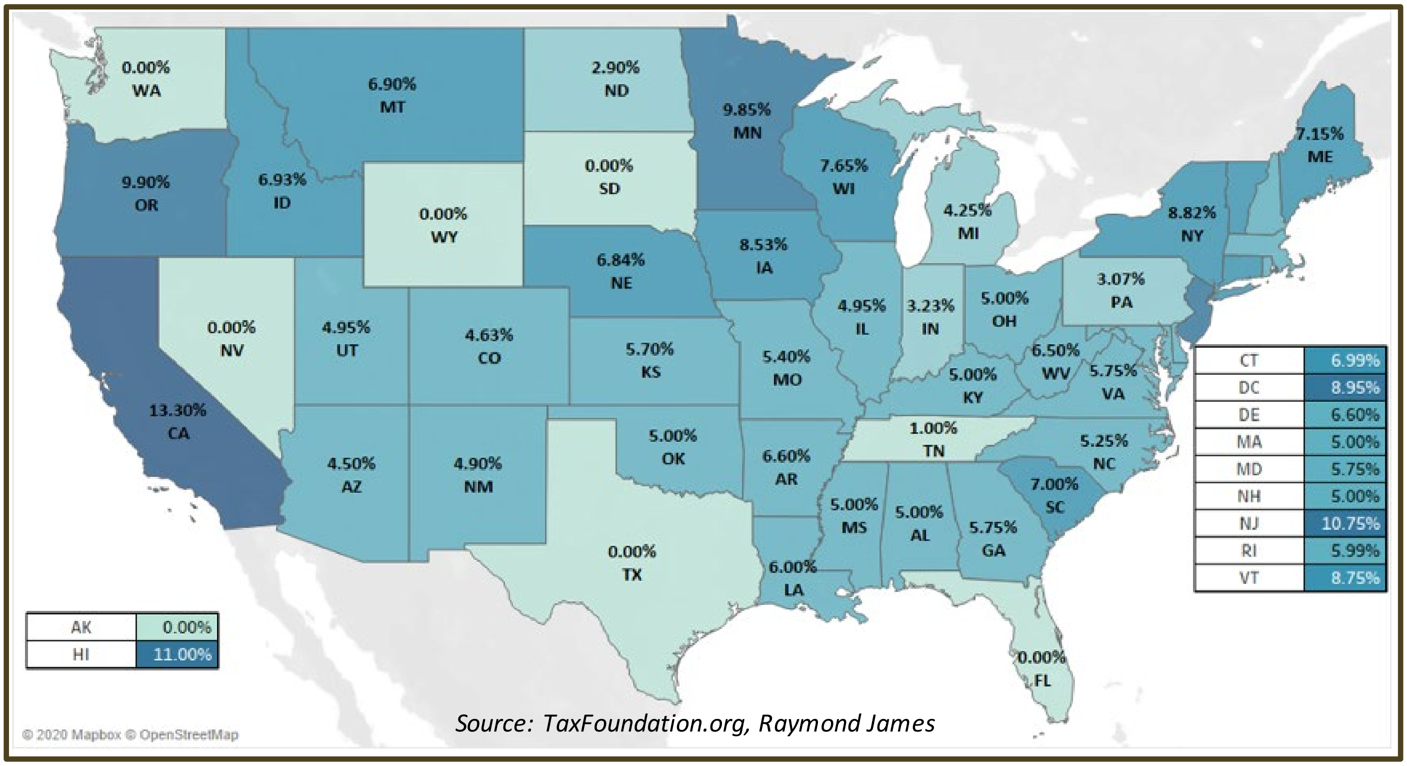
- Looking at longer duration assets will provide a more effective balance to equity volatility. Longer duration assets are more negatively correlated than shorter duration assets.
- Purchase investment-grade BBB or better corporate bonds. The purchases concentrated in the sweet spot of the corporate curve (5-10 year maturities).
- The yield advantage was significant versus 1 year CD rates.
- Although the duration was significantly higher (6.4), this will ultimately hedge the overweighted equity allocation more effectively.

Portfolio Summary

Averages	Buys
Coupon	3.90%
Maturity	7.82 yrs
Price	109.01
Modified Duration	6.36
Yield to Worst	2.61%
Yield to Maturity	2.64%
After Tax YTW*	2.04%
Taxable Equivalent YTW*	2.61%
Average Rating	Baa1/BBB+

**Tax Bracket: 22% Federal*
This example is for illustrative purposes only.
Actual investor results will vary.

State Tax Map



Source: TaxFoundation.org, Raymond James

- Most tax exempt municipal bonds are exempt from both federal and state income taxes (there are a few exceptions), so all else being equal, the higher the state income tax rate, the more incentive an investor has to purchase in-state bonds, and vice versa.
- US Treasury securities are exempt from state income taxes. In high-tax states, this can have a significant impact on the taxable-equivalent yield to an investor.
- Although taxable municipal bonds are taxable at the federal level, most states do not tax their own states' taxable municipal bonds. This means that many investors can get a taxable equivalent yield benefit by purchasing taxable municipals issued by their own state. The higher the state income tax rate, the larger the benefit.
- It can be advantageous to explore tax-exempt municipal fixed income outside your state of residency. Sometimes in-state issuers might be expensive relative to out-of-state options and even after paying state taxes, the out-of-state issues may provide a higher after-tax yield.
- Lack of supply within certain states may entice an out-of-state look. Also, a portfolio may benefit from diversification by looking at issuers on a national basis.

Fixed Income Strategy Resources

Doug Drabik - Sr. Fixed Income Strategist
Drew O'Neil - Fixed Income Strategist
Rob Tayloe - Fixed Income Strategist
Rob Tribolet – Fixed Income Strategist

"When it comes to your income, is success measured by an index, or when your individual needs and goals are met?"

The Fixed Income Strategy Group provides market commentary, portfolio analysis and strategy to Raymond James advisors for the benefit of their clients and prospects. We are part of the larger 14-person Fixed Income Solutions group within the Raymond James' Fixed Income Capital Markets Group's 450 fixed income professionals including trading and public finance specialists in 38 nationwide locations. This publication does not constitute Fixed Income research, but rather it represents commentary from a trading perspective.

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- Fixed Income Weekly Primer (PDF)
- Municipal Bond Investor Weekly (PDF)
- Fixed Income Quarterly (PDF)
- Weekly Index Monitor (PDF)
- Weekly Interest Rate Monitor (PDF)

Investment Types/Expertise Include

- Treasuries/Agencies
- Brokered CDs
- Corporate bonds
- MBS/CMOs
- Tax-exempt municipals
- Taxable municipal bonds
- Preferred securities

RAYMOND JAMES FEBRUARY 10, 2020

Weekly Bond Market Commentary

Fixed Income Solutions

Allocation Benefits

DOUG DRABIK
Managing Director, Fixed Income Strategist

If I were to ask you to match the following people (soccer parent, house contractor, doctor) with their corresponding vehicles (Ford F150, BMW 540i, Chrysler Town & Country minivan) I'm guessing I would get near 100% consensus (the house contractor drives the Ford F150, the doctor drives the BMW 540i and the soccer parent drives the minivan). Aside from obvious stereotypes, your analysis probably consciously and/or unconsciously assessed practical use, affordability, need and maybe in one case, luxury. The point is that each of these vehicles serves a real purpose functioning as a tailor-made fit for each individual. I'm sure the contractor wouldn't mind driving the BMW… until he had to haul a couple of ladders and bags of concrete to a job site. You get the point.

The primary benefits of various asset classes are also very different… intentionally so. The greater the risk, typically the greater the reward. Conversely, a lower degree of risk generally means less reward. A billionaire can simply afford to take on more risk than a retired elderly person living off a fixed income stream. This constraint may dictate the retired person's course of action, however, it does not necessarily indicate the billionaire's choice of risk. Being *able* to absorb an equity market 50% pullback should not be confused with the desire to risk such an event. Every investor loves the upside triumph of an appreciating stock until they experience a downside capital plunge when that same stock loses 30% of its value. Again, you get the point.

Suppose you buy 1000 shares of XYZ stock at $100/share ($100,000). A 50% market pullback occurs, knocking the price of XYZ to $50. You now have a $50,000 value. If XYZ experiences a 50% surge, you only recover ½ of your previous loss [$50 + (50% x $50)] = $75. You actually need 100% price appreciation to just break even on your initial investment and to fully recover from the 50% pullback.

Now suppose you bought $100,000 ABC bond at par at a 3.10% yield, producing $3,100 of annual income. An interest rate surge pushes yields up 50 basis points and drops the price of ABC from $100 to $94. The cash flow and income on your holding … remains $3,100/annually. The price of ABC could drop, go up or stay the same and it would not affect your cash flow, income or the date when you receive your $100,000 face value back. A buy and hold investor satisfied with the benefits of fixed income can dismiss any price changes over that holding period.

The market can move either way. Of course in a bull market run, XYZ might double in value. Greater risk, greater reward. On the other hand, the bond will perform exactly the same for a buy and hold investor regardless of interest rate changes or market price changes. Income will not be disrupted, cash flow will continue and barring an outright default, face value will be returned at maturity.

"The primary benefits of various asset classes are very different … intentionally so."

There is no right or wrong investment. They each serve a different purpose: in our examples, one of growth and the other of principal protection and income. The benefit of appropriate asset allocation can and should combine the growth prospects with a balance of principal protection. Stay disciplined in utilizing the benefits of appropriate asset allocation.

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Know What You Can Own

Most individual bonds provide investors with a few prominent features that are difficult to find in other product types, most notably: known cash flow for the life of the security, known income (yield) at the time of purchase, and a known date when principal will be returned. While most individual bonds provide all of these benefits to investors, there are many types of individual bonds, each having different features and applications within a portfolio. As an investor, sometimes it's difficult to know which product is most appropriate for a given situation. Here we shed a little light on when various products might be appropriate.

Tax-Exempt Municipals

Investors in high tax brackets seeking very high credit quality (typically A to AAA) investments that provide tax-efficient cash flow and income.

Taxable Municipals

Investors who are either not in a high tax bracket, or are investing for a qualified account, that want very high credit quality (typically A to AAA rated) investments.

Investment-Grade Corporate Bonds

Investors who are either investing in a qualified account or not in a high tax bracket, that want high credit quality investments but also want to maximize yield. Investment-grade quality is desired but AA or AAA rated securities are not a requirement. Most of this market carries BBB or A ratings.

Treasuries

Investors that want minimal to no credit risk and want maximum liquidity. Safety of principal and liquidity are the primary concerns, while return on investment is secondary.

Brokered CDs

Investors who want FDIC insured investments, oftentimes seeking more FDIC coverage than can be obtained from a single bank. FDIC insurance is the top priority, return on investment is secondary.

Preferred Securities

Investors seeking high cash flow that do not require a defined maturity date. A more aggressive investment than a corresponding corporate bond in that they are typically lower rated and often do not have a specified date for principal return.

Many wealthy investors choose individual bonds to preserve their wealth. Laddered strategies can provide defined cash flows, steady income and a known maturity date. Ladders can be designed with flexibility allowing investors to obtain very individualized results. The table below summarizes a few illustrative portfolios to give investors an idea of current yields.

- ✓ Identify acceptable risk factors.
- ✓ Define desired income.
- ✓ Create required cash flow.
- ✓ Identify requisite redemption period.
- ✓ Create needed liquidity.
- ✓ Isolate personal biases.
- ✓ Use appropriate asset mix.
- ✓ Diversify.
- ✓ Rebalance when applicable.

	Portfolio Statistics					Credit Quality			
	Maturity Range	Avg. Maturity	Duration	Yield to Worst	TEY*	AAA	AA	A	BBB
Municipal Ladders	1 to 5	3	2.81	0.97%	1.63%	20%	60%	15%	5%
	1 to 10	5.5	4.90	1.09%	1.84%	20%	60%	15%	5%
	1 to 15	8	6.81	1.25%	2.11%	20%	60%	15%	5%
	5 to 10	7.5	6.45	1.18%	1.99%	20%	60%	15%	5%
	5 to 15	10	8.23	1.36%	2.29%	20%	60%	15%	5%
	5 to 20	12.5	9.89	1.50%	2.53%	20%	60%	15%	5%
	10 to 20	15	11.41	1.66%	2.80%	20%	60%	15%	5%
Corporate Ladders	1 to 5	3	2.78	2.01%				25%	75%
	1 to 10	5.5	4.84	2.29%				25%	75%
	1 to 15	8	6.70	2.55%				25%	75%
	5 to 10	7.5	6.34	2.51%				25%	75%
	5 to 15	10	8.05	2.77%				25%	75%
CD Ladders	1 to 2	1.5	1.44	1.70%					
	1 to 3	2	1.90	1.72%					
	1 to 4	2.5	2.35	1.73%					
	1 to 5	3	2.79	1.74%					

*Sources: Raymond James, Bloomberg LP, MMD; as of 02/07/2020. *TEY is based on the top federal tax bracket (37%) plus the Medicare surtax (3.8%). Yields shown are illustrative only, calculated using the arithmetic means based on the maturity range combined with the credit quality percentages, and are not inclusive of sales credit. Certificates of Deposit offer FDIC insurance and a fixed rate of return whereas the principal value of fixed income securities will fluctuate with changes in market conditions.*

The author of this material is a Trader in the Fixed Income Department of Raymond James & Associates (RJA), and is not an Analyst.

Duration is the measure of a bond's price sensitivity relative to interest rate fluctuations. The performance mentioned does not include fees or commissions which would reduce an investor's returns. Dividends are not guaranteed and will fluctuate.

Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal. The process of rebalancing may carry tax consequences.

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Should interest rates remain unchanged, increase, or even decline, a laddered approach to fixed income investing may help reduce risk, improve yields, provide flexibility and provide shorter-term liquidity. Risks include but are not limited to: changes in interest rates, liquidity, credit quality, volatility and duration.

U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Bonds may receive credit ratings from a number of agencies however, Standard & Poor's ratings range from AAA to D, with any bond with a rating BBB or higher considered to be investment grade. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.
A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

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