

A \$100,000 bond ladder with \$25,000 maturing each year

Bond	\$Amt	Maturity	Assumed Coupon Rate	Interest Income
A	25M	2008	3.875%	\$969/year
B	25M	2010	4.250%	1,063/year
C	25M	2012	4.625%	1,156/year
D	25M	2014	4.875%	1,219/year
				\$4,406/year interest
\$100,000 Investment		10 Year Average Life	4.14% Average Yield	\$17,624** Cash flow in 2008 (4 years)

**\$4,406 annual interest income in year 2008 (four years). At the end of year four, you would have \$25,000 in cash from the first bond to mature: Total principal and interest proceeds over first four years: \$42,624 (\$4,406 X 4 years + \$25,000). In addition to the cash accumulation of \$42,624 at the end of 2008 (year four), you would have a \$75,000 bond portfolio maturing in \$25,000 bond increments in years 2010, 2012 and 2014. This example is hypothetical only: the actual income received is determined by each individual issue.

Note: This example does not reflect the impact of material market or economic conditions on the results portrayed. It also does not reflect the deduction of any Advisory Fees or other expenses nor does it reflect interest earned on coupon payments.

All Bond types

The ladder technique works equally well for portfolios of:

- **U.S. Government Bonds**
- **Corporate Bonds**
- **Agencies**
- **CMOs • Ginnie Maes**
- **Zero Coupon Bonds**
- **Municipal Bonds**
- **CDs¹**

The bond ladder will also work just as effectively with combinations of Tax Free Bonds and Taxable issues. For the first few maturity years, one might use Municipal Bonds and in year 12 have a taxable Zero Coupon Bond that matures and provides a large cash nest egg for retirement, a child's education, or whatever! Each security has different levels of risk associated with it, including credit risk, interest rate risk and liquidity risk. A bond ladder strategy may not be appropriate for all investors.

What are the risks?

A bond ladder mitigates some of the interest rate risks associated with placing all of your capital into either short- or long-term bonds. However, all bonds, including Treasury bonds, fluctuate in value day-to-day. If sold prior to maturity, they may be worth more, less, or the same as your original investment. The accreting value of Zero Coupon Bonds may be subject to tax even though the interest is not actually received until maturity. Unless specifically stated the investments discussed in this brochure are NOT guaranteed by the FDIC and are NOT an obligation of any bank.

¹CDs are insured by the FDIC.

Using mortgage backed securities like Ginnie Maes & CMOs

Mortgage-backed securities like Ginnie Maes or the sister Collateralized Mortgage Obligations (CMOs) of Fannie Mae (FNMA) or Freddie Mac (FHLMC), can make excellent cornerstones for a bond ladder. [See the Notes below.]

GNMA mortgage collateral represents a full faith and credit obligation of the United States Government. FHLMC and FNMA mortgage collateral is fully and unconditionally guaranteed by FNMA or FHLMC for the timely payment of principal and interest.

Notes on Mortgage-backed Securities:

Mortgage backed securities can be complex. It is important for investors to get more information about how these investments react under different interest rates before investing. The average life and yield of mortgage-backed securities can vary depending on the speed of prepayment of the underlying mortgages. As interest rates decrease, prepayments from the underlying mortgages generally increase, which shortens the average life. Conversely, as interest rates rise, mortgage prepayments tend to slow, which extends the average life.

Where to start?

The place to start is with your financial advisor. Bond ladders are custom-made and require some thinking and discussion. Together with your financial advisor, you can tailor a bond ladder that helps reduce risk and can help meet your specific needs, objectives, and desires.

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BOND LADDERS

Risk-averse investors seeking to preserve accumulated wealth and earn income, can be well served by utilizing a bond ladder investment strategy. A bond ladder consists of a bond portfolio custom formulated to an investor's needs.



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Bond Ladders

Help minimize market risk

By staggering the maturities in a bond portfolio over several years, you can help minimize market value fluctuations and risks caused by changes in interest rates. The ladder technique may provide diversification, income and a degree of short-term liquidity.

A bond ladder

A bond ladder is a diversified series of bonds in a portfolio which have sequential maturity dates, usually over a period of several years. The sequential maturities insure that you always have a portion of the portfolio somewhat near maturity. Short maturity bonds serve to help minimize the risk to the overall portfolio from rising interest rates and market value fluctuations. Since part of the portfolio is longer-term, you benefit from the higher yields associated with longer-term investments. The longer term bonds provide higher income and protection from falling interest rates. Since investments are made in several different issues you also benefit from diversification.

How it works

First, determine the maximum term for the portfolio, and then select bonds with sequential maturities from short-term to long-term. For example, a \$100,000 portfolio invested for a 12 year maximum may use four \$25,000 investments with maturities of 4 years, 6 years, 10 years and 12 years respectively.

At the end of year 4, the shortest bond will have matured leaving you with a portfolio of \$25,000 in cash and three 25 bond blocks maturing in 2, 6, and 8 years respectively. As the 4 year bond matures, the \$25,000 proceeds are invested back into a 12 year bond, making the portfolio now consist of 2, 6, 8, and 12 year maturities.

This ladder strategy insures that you always have a shorter-term portion that can be readily sold for cash if needed, and keeps the maturities staggered to help minimize interest rate risk.

Monthly income

A bond ladder can be constructed to provide monthly income by using six bond issues, each of which pay interest semiannually in different months. Alternately, using mortgage-backed securities like Ginnie Maes in a ladder automatically provide monthly income.

Minimum investment

The minimum capital needed for an effective bond ladder varies with the types of securities used. General guidelines:
\$50,000 for Corporates or Zeros;
\$100,000 for Municipal or Governments; and
\$50,000 for CMOs or Ginnie Maes.

Diversification and Sequential Fixed Maturity Dates

Staggering bond maturities in the range of 4-15 years allows you to earn potentially higher yields than would be possible with short-term instruments like Certificates of Deposit¹ and money market accounts. In addition, you can earn these higher yields while minimizing market risks associated with longer maturity bonds. Since the bonds in the ladder mature at set intervals from short- to medium-term, you receive a more consistent yield than single issue, long maturity bonds.

This strategy provides for a constructive level of diversification: you can diversify among bond types, bond issues, maturity dates and quality. Diversification may help reduce risk, but cannot eliminate the risk of investment loss.

A degree of flexibility

If you have to unexpectedly liquidate assets, you always have some short-term bonds in the portfolio to sell, as short-term bonds have the lowest price volatility. *[See liquidation note below.]*

Periodically, as you review the performance of your investments, you can rethink the laddered investment strategy. With a bond portfolio of staggered maturities, you can increase or decrease the investment amount you have in any maturity range.

If other markets show investment opportunities, the bond ladder gives you the ability to generate cash without a major refitting of the laddered portfolio.

By having bonds come due over nearly equal periods of time, you can help smooth out the effects that interest rates have on portfolio valuations. That way, you don't have to worry about all of the bonds maturing when interest rates may be low. Likewise, there may be a time when you need additional monies to take advantage of higher investment yields.

Notes on liquidation: If you choose to sell any bond investment before its maturity, it may be worth more or less than your original investment.

Eliminate the guesswork of interest rates

Using a bond ladder eliminates some of the guesswork involved in selecting and timing investments. At the same time, it may be an ideal way to generate a consistent level of income for risk-averse investors seeking first to preserve their accumulated wealth.

