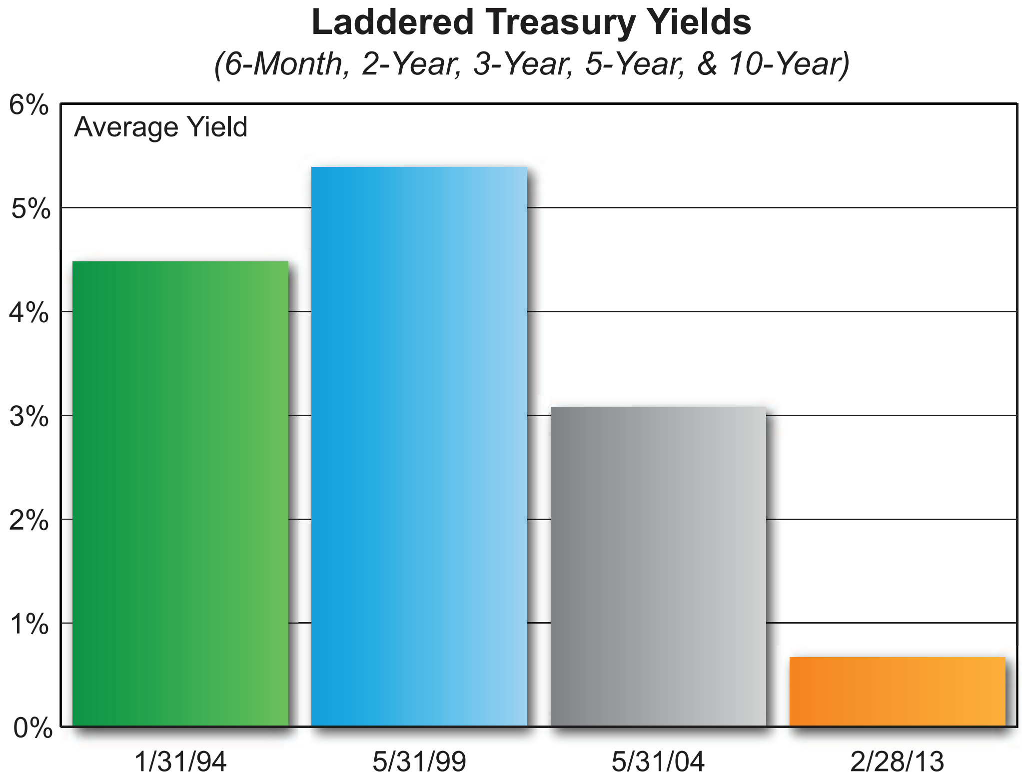
Looks More Like A Step Stool Than A Ladder



Sources: Federal Reserve, Bloomberg. Note: Yield assumes a 20% weighting in each security.

View from the Observation Deck

1. A common strategy that income-oriented investors employ when they fear that interest rates may rise is to ladder bond maturities.
2. The scenario we have presented in the chart is just one example of how one might approach it using Treasury bills and notes.
3. The first three dates were selected based on the fact they were approximately one-month prior to the Federal Reserve initiating a tightening phase within its monetary policy.
4. One of the takeaways from the chart is that each of the first three dates (1/31/94, 5/31/99 and 5/31/04) offered investors an average yield opportunity of 3.0% or higher.
5. Why is this relevant? Since 1926, the average annual rate of inflation, as measured by the Consumer Price Index (CPI), has been approximately 3.0%.
6. Today, the average yield utilizing this laddering strategy (2/28/13) is only 0.67%, well below the latest CPI reading of 1.6%.
7. Investors willing to assume some measure of credit risk may want to consider other options in this climate.