Definition

Laddering is used to create an investment strategy that aims to produce steady/predictable cash flow. This strategy produces an influx of liquidity at a predetermined time, and can reduce exposure to a volatile market.

Why

A laddered portfolio **helps smooth out the effect of fluctuations in interest rates** because bonds are maturing every year, quarter, or month, depending on the number of rungs on your ladder.

When a bond matures, the investor can reinvest the proceeds in a new security using the same laddering approach or use the proceeds to invest elsewhere.

Laddering **protects against market price risk** (the risk that their price will drop as interest rates rise).

Things to know before building a bond ladder.

- Know your county's cash demands for foreseeable future – preventing the need to sell securities to meet the county's financial obligations.
- Hold bonds until maturity to maintain the integrity of the laddered portfolio.
- Understand that callable bonds create gaps if a bond is called.