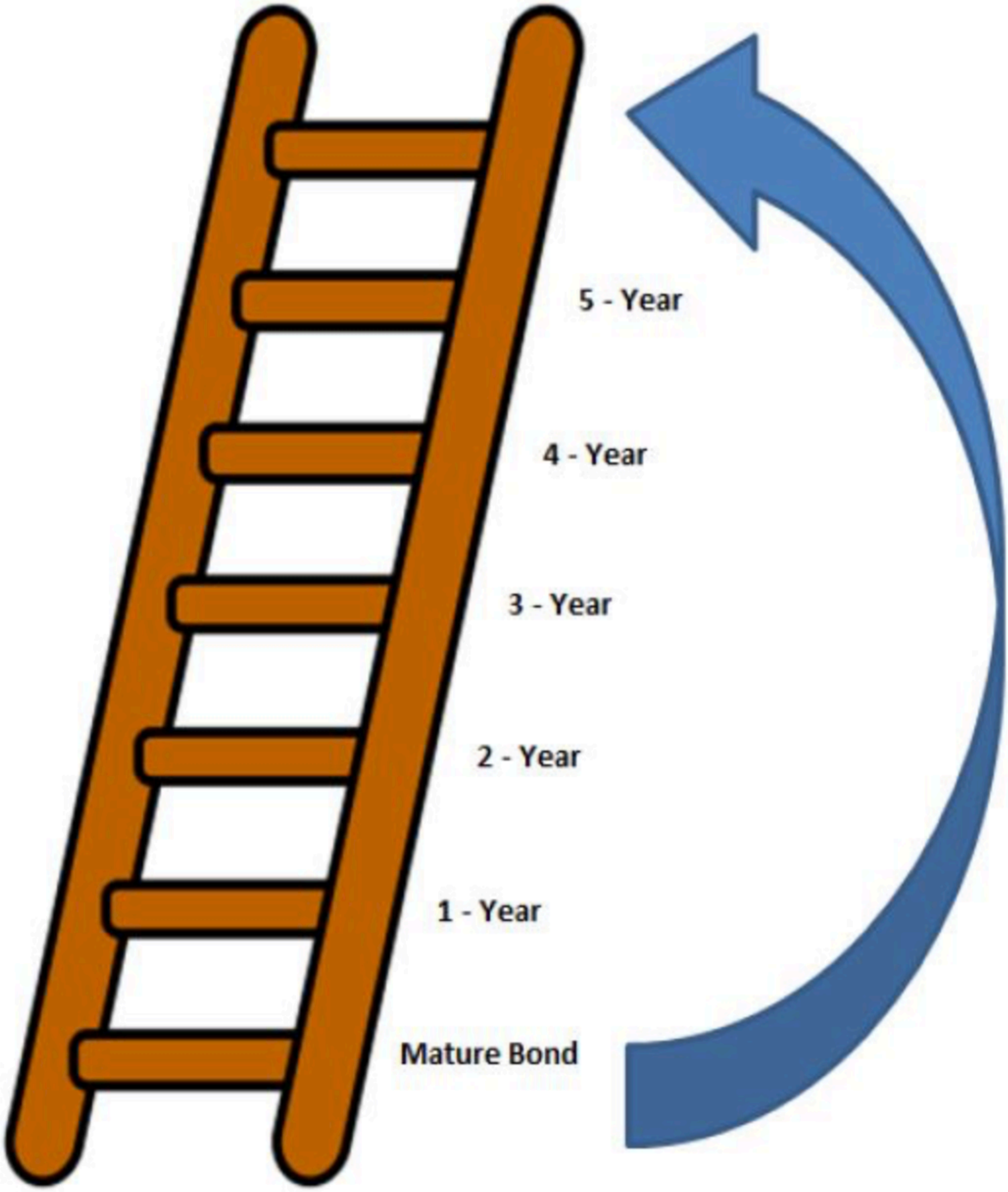
Bond Ladder



- investing normal bond etf exposes the investor to huge interest rate risk

- Because predicting future interest rates is nothing but easy task, there are other kinds of bonds that reduce the interest rate risk, IF YOU HOLD THEM TO MATURITY

- Normal single bonds can be used this way, that you buy lets say 2 year Microsoft bond with ytm of 3,5%, then if you hold the bond instrument to maturity, you are guaranteed to gain the yield to maturity (unless issuer defaults)

- Normal bond etfs dont have this function built in (they dont mature like “bullet maturity bonds”)

- “Bullet maturity bonds” are offered mainly by 2 etf provider and they are gaining huge traction, iShares and Invesco are the main providers (iShares calls these iBonds and Invesco BulletShares)

- “bullet maturity bond” etfs offer the best of both worlds, they mature at the predecided maturity date and pay the principal plus proceeds back to investor, and if the investor buys and just holds the etf till the maturtiy date, he/she is guaranteed to gain the predetermined income (unless some bonds in the etf bond portfolio default)

- “bullet maturity bond” etfs also offer the benefits of etf investing and compared to single bond , it is invested in huge amount of individual corporate bonds (if corporate bond etf) or mainly us government or municipality bonds

- investing in multiple year “bullet maturity bonds” is called bond laddering , an old-school technique to boost yields and reduce interest rate risk, where investor can invest target dates in mind and be almost certain to gain predermined yield to maturity unless issuers default

More of bond laddering and “bullet maturity bonds” :

https://finance.yahoo.com/news/build-bond-ladder-etfs-235652030.html

https://www.ishares.com/us/strategies/bond-etfs/build-better-bond-ladders

https://www.etf.com/channels/bullet-maturity-etfs