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CAPITAL MANAGEMENT

Greetings!

Our newsletter this month is titled "Generating Retirement Income with Ladders and Barbells."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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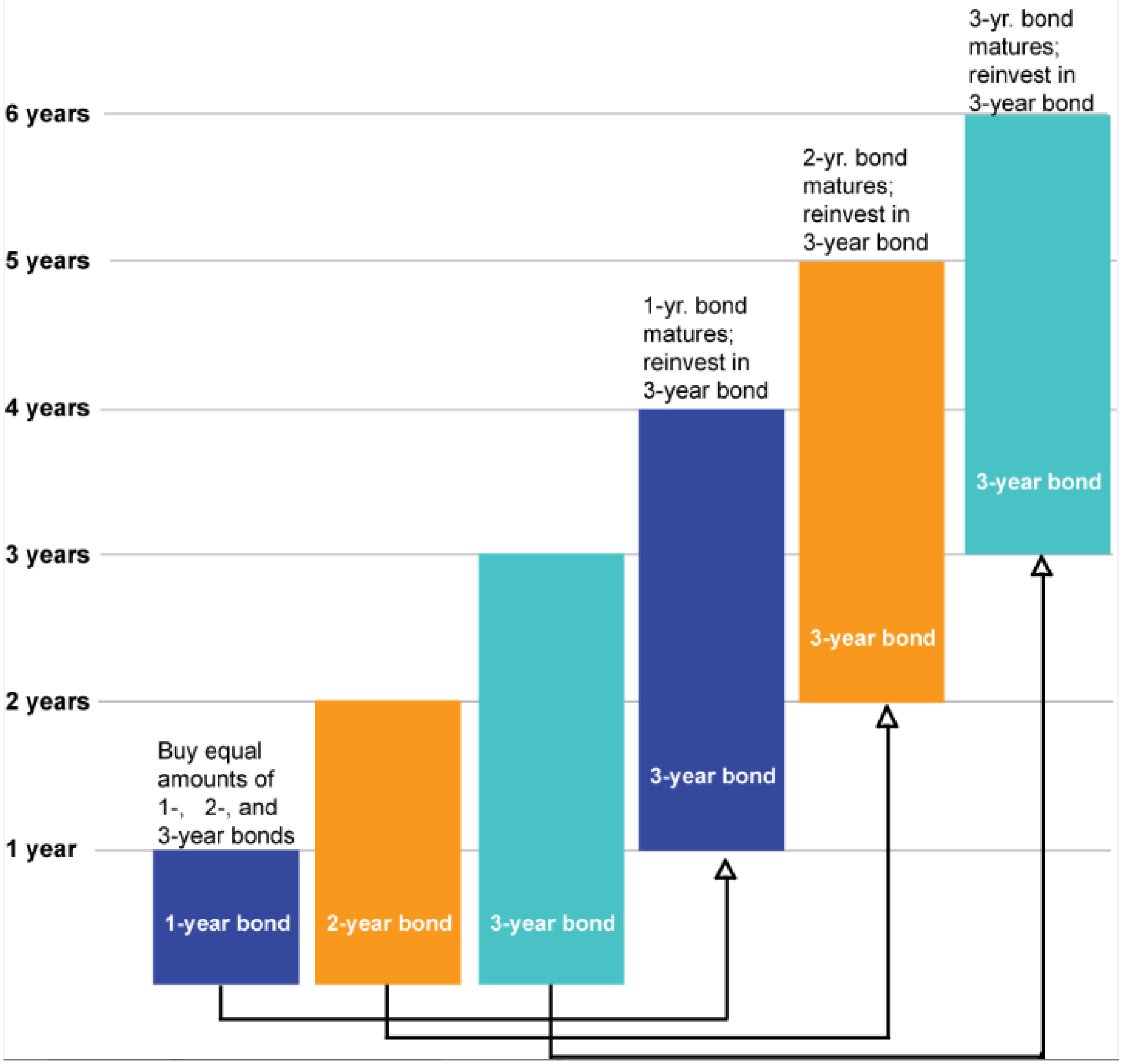
Generating Retirement Income with Ladders and Barbell

If you are at or nearing retirement, you may be looking for ways to transition a portion of your investment portfolio from growth to income. Switching from stocks to bonds is one way to do that. But that alone will not necessarily provide a predictable income stream and it may expose you to undue market risk if you have to cash in the bond before maturity.

To address these concerns, there are two bond investing strategies that retirees and other fixed-income investors frequently turn to: "laddering" and "barbell" strategies. Here's how they work...

Building a Bond Ladder

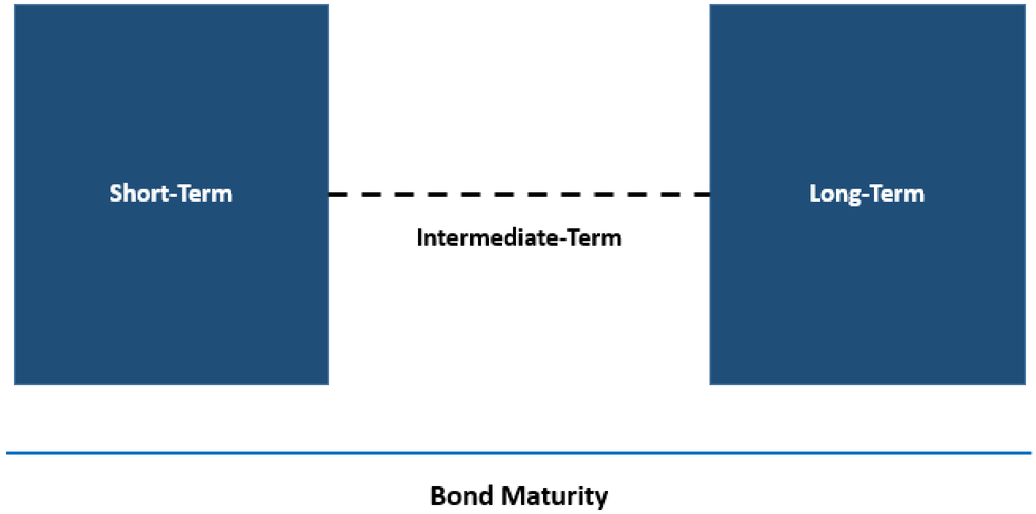
A bond ladder strategy simply involves buying bonds of different maturities, then reinvesting the proceeds when they mature. By staggering maturities, you help reduce your exposure to interest rate risk--the risk that your bond price will fall if interest rates rise. If rates rise, you can reinvest the proceeds from maturing bonds at the higher rate. If rates fall, you still receive interest from the remaining bonds in your ladder. You also stand to potentially improve your overall yield more than if you continually reinvest in one-year maturities, since longer-term bonds of similar quality usually offer higher yields than short-term issues. A laddered portfolio also gives you the flexibility to lock in for longer maturities should the economic and rate environment be favorable.



This is a hypothetical example and is not representative of any specific issue. The example does not reflect and fees or charges inherent to investing.

Barbell Strategy

In a barbell strategy only short-term and long-term bonds are purchased. Short-term generally refers to maturities of one to three years, while long-term typically involves maturities greater than 10 years. A barbell strategy balances defensive with offensive holdings, affording flexibility and some protection from a rise or fall in interest rates. Should rates rise, the portion of a barbell portfolio that is invested in short-term bonds will need to be rolled into new issues once they reach maturity. This will allow you to reinvest the principal at the new higher rates. Should rates fall, the portion that is invested in long-term bonds offers protection, as this portion will be locked in at the higher rate you got when you initially invested.



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Which strategy works best for you will depend upon your particular needs and circumstances. It will also depend upon the interest rate environment and where rates may be headed. You may also want to avoid callable bonds, which may be called when rates are falling, potentially forcing you to lock in a lower rate if interest rates drop.

Talk to your financial advisor to find out more about these and other bond investing strategies and how they might suit your particular situation.

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