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Bond Portfolio Laddering: A Mean-Variance Perspective

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Abstract

A ladder strategy calls for the maturities of the bonds in a portfolio to be spread out evenly with an equal amount invested in each maturity. There is wide acceptance of bond laddering by retail investors as an appropriate approach to constructing bond portfolios. However, the coverage of bond laddering has been minimal in the academic literature, including journal articles and textbooks; in particular, there is no article which shows that a bond laddering strategy is optimal or consistent with rational economic behavior. This paper offers a rational explanation for bond laddering based on the meanvariance framework and the idea of bounded rationality.

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