

An "Old Timer's" Look at Today's Municipal Bond Market

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In recent years, our bond markets have become more sophisticated, complicated and challenging for investor and investment banker, alike. Although we have always adhered to our basic business and philosophical principles, many new changes have evolved over these past forty years and we have had to adjust our methods, systems and beliefs so as to meet these challenges as they have come along.

"Insured bonds", for example, have proliferated in recent years. The process of lumping bond issues into a huge pot, "rated" and priced the same as its competing commodity (i.e. bonds insured by a different insurance group) has become a marketing force.

This "product" is easily placed with investors; many times by investment people who know little or nothing about municipal bonds, with little or no knowledge of the insuring company's strength and with little appreciation of just how expensive the "insurance premium" is for the client.

However, as long as the investor is willing to pay this premium, the trend will continue. The profits from premiums are so attractive they have given birth to many new "bond insuring" insurance companies during the past

few years. In fact, the profits are so striking the insurers are *reaching out* to find more new bond issues to insure. Meaning more and more bond issues with the same ratings ... being offered at the same price ... and *fewer bonds brought to market on their own individual merits*.

Nevertheless, the inefficiency of the *municipal bond market* continues to exist. Despite the large volume of similarly rated bonds (because of insurance), regardless of the ease of accessibility to sophisticated communication tools, the instant availability of information, the constant presence of aggressive competition and, not the least, a much better educated market participant, *the bond market continues to be an inefficient animal*.

Furthermore, there still remains a plethora of issuers who need hands-on attention from bond experts.

Creative financing ideas and underwriting assistance can be given to these communities only by people like ourselves; underwriters working at the individual community grass root level.

Financial professionals who know the credits and can deliver quality bonds without the need for insurance premium payments ... thereby delivering a higher yielding investment to our investor clients.

In the secondary market there remain huge inefficiencies. As always, the hard-working, imaginative bond trader takes advantage of these inefficiencies and continues to find excellent credits with higher rates of return for the client.

There may be new "products", but successful underwriting and trading of municipal bonds requires much the same philosophy and approach as has been employed for the past forty years.

In the underwriting area we must continue to work closely with issuer clients to help the communities bring sound bond issues to market.

In the secondary market, we need to know bond credits and their value relative to the market. Armed with this knowledge, our traders must continue to move aggressively by taking immediate action to take advantage of market inefficiencies as they occur.

Above all, we must work hard to find true value for our clients. The bottom line will then take care of itself.

This has been true for a lifetime.