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## The Fixed-Income Fix

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G. Eugene Boyce, a 77-year-old attorney in Raleigh, N.C., didn't know the first thing about the bond market until the fall of 2008. That's when his Wachovia Securities broker persuaded him to invest \$3 million in tax-free North Carolina municipal bonds. Eager to make sure he was getting his money's worth, Boyce decided to give himself a crash course in bond pricing. It didn't take long for him to conclude he was being fleeced.

With a little digging, Boyce uncovered evidence that, on top of the 0.5% commission outlined in his brokerage agreement, Wachovia had clipped him for a hefty--and undisclosed--markup on a half-million dollars' worth of bonds issued by the city of Salisbury, N.C. Soon Boyce was convinced Wachovia had added excessive markups to millions of dollars' worth of his family's other bond trades as well. Last June he filed a lawsuit now in federal court accusing the firm of fraud and unfair trade practices. (Wells Fargo, which now owns Wachovia, declined to comment.)

"This is an older person's market, and I know how naive and untrained people my age can be," Boyce says.

Even for those who are on the ball, the bond market is a treacherous place to buy and sell. Want to know how much a stock you own is worth? A few mouse clicks gives you a price that's at most 15 minutes old. With the average spread on S&P 500 constituents now 0.06 cents per \$1 of its total value, even investors who fail to pay close attention are unlikely to get ripped off too badly.

Muni and corporate bonds, by contrast, still trade in the modern-day equivalent of smoky back rooms. There is no requirement that trades take place on an exchange. For munis there simply is no exchange; everything is over the counter. The New York Stock Exchange does list corporate bonds but accounts for only a small share of corporate bond trading. If you want a good price buying or selling a corporate or a muni bond, you generally have no better way to do it than calling different brokers where you already have accounts and going for the best deal.

Boyce's experience with Wachovia is a prime example of how these conditions can conspire against the little guy. He figured his brokerage agreement allowed Wachovia to earn \$2,625 (0.5% of the \$525,000 value of his bond purchase) for acquiring at par his Salisbury munis, with a double-tax-free coupon of 5.6% and a 2028 maturity. Boyce says his broker told him Wachovia bought the Salisbury bonds at their \$5,000 par price. To double-check he went to the Financial Industry Regulatory Authority's online bond trade database. The site does not include the names of parties involved, but it does disclose the time, date, quantity and purchase prices of muni and corporate bond trades.

The database showed that on the day Boyce purchased his Salisbury munis, an undisclosed dealer bought 136 such bonds for \$4,930 apiece. Forty minutes later it sold 105 of them to one customer (presumably Boyce) and the remaining 31 to another--all for \$5,000 each. If it was in fact Wachovia that did the buying and selling, its take on Boyce's purchase was not \$2,625, or 0.5%, but \$9,975, or 1.9%.

When Boyce pressed Wachovia for details of the trade, the firm acknowledged it had bought at 98.6% of par value, equivalent to the same \$4,930 Boyce had seen on the Finra tape. Wachovia offered to waive its commission but not to rebate its \$7,350 markup. Unsatisfied, Boyce sued.

"There's always a bit of arbitrage," says Marilyn Cohen of Envision Capital Management and a FORBES fixed-income columnist. "A lot of people don't realize how much [price] gaming there is."

You can also run into problems when you're on the sell side. Vanguard Group, better known for mutual funds than for brokerage, says it always puts muni bond orders up for bidding on a national network. Fidelity routes sell orders to its own trading desk, unless the customer specifically requests national bids. Charles Schwab customers will need to ask for themselves about its policy; the firm declined to discuss it with FORBES.

Fortunately for small investors, visibility of bond prices has improved dramatically in recent years. Three Web sites relay pricing data to the public almost instantaneously, at no charge. The most user-friendly of the bunch is Emma.msrb.org, run by the Municipal Securities Rulemaking Board.

Emma tracks 1.5 million different bonds and an average of 47,000 trades a day. Alas, no data on trades of corporates on Emma. But InvestingInBonds.com, managed by the Securities Industry and Financial Markets Association, and Finra's site, both offer real-time corporate as well as muni trades.

(Surprisingly, up-to-the-minute trading data for corporates and munis are easier to find for free on-line than are similar data for Treasuries. InvestingInBonds.com and Finra's site post only end-of-day prices on Treasuries. Bloomberg.com posts 15-minute-delayed prices on a range of maturities. Nevertheless, it's easier for the small investor to get a fair deal when purchasing Treasuries. For more on buying them, see the box above.)

How to use all the new information on corporates and munis to your advantage? First, check out the three Web sites before calling your broker with an order. Do understand that your broker is not in business for entertainment and is entitled to a markup or markdown. But at least you can haggle. A 0.5% fee is reasonable on a \$100,000 trade of a fairly liquid corporate or muni bond; 2% is not. If the bond you're interested in hasn't traded in a while, take the old price and adjust it according to how prices of similar but more-liquid bonds have moved in the meantime.

Second, if you have more than a few million dollars in the market, divide it between two brokers and get prices from each before placing an order.

Third, ask yourself whether you can satisfy your urge to trade by messing with only stocks and U.S. Treasuries. Do all the rest of your fixed-income investing via mutual funds. The table below lists a few with low expense ratios.

#### A BETTER WAY TO BUY

Small investors are usually better off owning bonds through mutual funds. These Forbes Best Buys offer low costs and acceptable returns in up and down markets.

PERFORMANCE	TOTAL RETURN	
UP	DN FUND	5-YEAR
ANNUALIZED LATEST		
12 MOS ANNUAL		
EXPENSES		
PER \$100		
B	C T Rowe Price US Bond Index	5.5%
12.2%	\$0.30	
A	C TCW Core Fixed Income-I	6.6
21.0	0.44	
D	B Vanguard Calif Intermediate T-E-Inv	3.5
10.6	0.15	
C	B Vanguard Intermediate Tax-Ex-Inv	4.2
11.6	0.15	
D	A Vanguard Limited-Term Tax-Ex-Inv	3.5
6.2	0.15	
B	D Vanguard NY Long-Term Tax-Ex-Inv	3.8
13.3	0.15	
D	A Vanguard Short-Term Federal-Inv	4.9
6.2	0.21	
D	B Vanguard Short-Term Inv Grade-Inv	4.5
15.7	0.21	



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