

Our 35th Anniversary Newsletter

That June day back in 1964 seems to lifetime ago when, after estimating expenses over and over, we rolled up our sleeves and opened for business.

It was a beautiful late spring day, and the birds singing in historic Trinity Churchyard just outside our windows belied the fact that we were engaged in one of the most competitive businesses in the world. What a thrill to match wits with giants like Merrill, Goldman and Chase Bank and to see the first hints of success.

When we began in 1964 there was only one other financial institution that specialized in municipal bonds for the individual investor. So in a sense we were pioneers in the field. Back then, municipal bond dealers dealt with large institutional accounts such as banks and insurance companies. And, while the brokerage houses sold municipals, it was only for a few of their very wealthy clients. So most stock brokers knew very little about municipals. In fact, most brokers considered selling them a nuisance because they made much more selling stocks. Individuals also knew next to nothing about municipals.

Then, as bracket creep took effect, individual investors in the 50% tax bracket began to appear in significant numbers. Predictably, for the sake of convenience, many of them turned to the brokers who already handled their equities accounts. But, stock brokers were not municipal bond specialists and, as a result of this mutual lack of understanding, most investors ended up with municipals that were not right for them. Assuming they were satisfied with the rating, they simply reached for the highest tax-free yields their broker had on the shelf. That meant the longest term bonds, which were precisely the bonds which put your principal at the greatest risk and, therefore, the wrong bonds for about 75% of those who purchased them.

We wanted each and every one of our clients to have a portfolio that we could be proud of and that our clients would be successful with. We wanted satisfied customers that would keep coming back to us. So we began by constructing our inventory using a widely diversified selection of bonds specifically suited to the special needs of individual investors—not banks and insurance companies. We bought bonds that we ourselves would be happy to own again someday, if necessary, because right from the beginning we made it a company policy to guarantee a market bid for any bond we sold to a client.

To foster an educational program for the Stoeber Glass client, our offering lists were combined with special educational reports. From the beginning, each was designed to teach an important phase of the business, to explain the advantages and disadvantages of one type of bond compared to another, and to show our clients how to avoid some of the most common and most costly mistakes.

The centerpiece of our highly successful educational program became our "Municipal Bond Portfolio Kit." Using model situations, it shows how to construct a portfolio that will give each and every investor the most for each investment dollar—based upon personal circumstances. And, through the years, it has become widely recognized as one of the most important educational tools in the municipal bond business. We think that what Garlan Morse, President (retired) of GTE Sylvania, said about it gives only an inkling of its true value.

Garlan Morse, President (retired) of GTE Sylvania

“The Portfolio Planning Kit by Stoever Glass showed me how to profit much more. It was totally different from anything I had seen.”

“In one hour, I learned more about municipals than I knew after ten years of buying them.”

“It wasn’t the usual beginner’s brochure. So, for someone like me, it was just right. Sure, I bought a lot of municipals, and I had a pretty good idea of what I was doing. Yet I often wondered if I really knew as much as I should. That’s why I sent for the Stoever Glass Kit. And when I read it, I knew I had done the right thing.”

“It showed me how to use *The Bond Buyers’ Index*. How to spot bargains in the market. When to buy premiums. Long Term or short term. Notes or bonds.”

“I found the kit so valuable that I insisted my wife read it too, and I’m keeping our copy in the vault.”

The bond business has grown and changed dramatically in those 35 years and we've grown, adapted and yes, even innovated some of those changes. As with any corporation successful enough to be in business for 35 years we've had our share of highlights. Like the time in late 1976 when Steve Hueglin, a young Stoever Glass salesman, made a startling discovery for us while on a routine search for undervalued bonds. It was in the midst of the New York City crisis and New York City bonds were commonly trading at 30 to 50 cents on the dollar in the secondary market. Looking for a way that our clients could take advantage of these bargains with the least possible risk. Steve looked at New York City's \$67,000,000 Housing Authority Bonds, reasoning that this special group of bonds might have two levels of coverage—rental income as well as the city's guarantee and therefore, present the best opportunity for our clients to take advantage of these depressed prices.

What we found proved much greater. All of this searching eventually led to the discovery that these issues were actually guaranteed by the Federal Government. Our discovery made the national news and resulted in a \$15,000,000 windfall for New York City Housing bondholders.

IN MID-JANUARY, lawyers for the Department of Housing & Urban Development verified a startling discovery: \$67 million worth of New York City Housing Authority bonds are fully guaranteed by Uncle Sam, not New York City's hard-pressed treasury. The bonds came back from the dead like Lazarus. Moody's immediately upped its rating from Caa (very bad) to Aaa (the very best)-which is the sharpest rating change in the bond business' history. Before the discovery, many of the bonds had traded at less than 30 cents on the dollar. Since the discovery, holders of the issue scored a \$15-million paper profit. Responsible for this \$15-million discovery was the Wall Street municipal bond house of Stoever Glass & Co. How did Stoever Glass beat such giants as Merrill Lynch and New York's big banks (not to mention Moody's and Standard & Poor's)?

Deep digging, says President Frederick J. Stoever, "We got interested in Housing Authority bonds because they seemed to have two levels of coverage: the city's guarantee and certain real estate properties. As we looked more closely at those properties, we found that starting in 1968 many of the projects had been converted from New York City to Federal Government programs." Municipal bond legal specialists at Mudge, Rose, Guthrie & Alexander agreed with Stoever Glass, and last month's HUD announcement confirmed it.

Did Stoever Glass make a killing from its legwork? Fred Stoever says no. The firm owned none of the bonds itself and did not purchase any for its own account.

FORBES asked Fred Stoever if he thinks other cities' housing bonds may also have Uncle Sam's backing. "I doubt it," Stoever replied. "This is the first time in the history of the municipal bond business anything like this has happened. I think it is very unlikely to happen again."

A few months later, James F. Musson, manager of our underwriting department, discovered that due to an oversight, an issue of Baa rated Hazlet, New Jersey bonds—although included under State guarantees—was not rated accordingly. As a result, Hazlet bonds jumped three ratings to their true value.

Mr. Musson, whose long and distinguished career began at Lehman Brothers in the 30's, was personally involved with setting up many of the laws and procedures for municipal financing in the state of New Jersey. So he was probably the most likely person to find this needle in the haystack.

As with the New York City bonds, Stoever Glass elected to take no financial gain and these windfalls were passed along to our client on a first-come, first-serve basis.

But these highlights are simply the more spectacular reflections of everyday occurrences at Stoever Glass. All of our salesman, traders, research people and underwriters are constantly on the lookout for undervalued bonds—the best buys for your money. And we pick some out of the marketplace almost daily. Sometimes it's a \$5,000 lot undervalued by a hundred dollars, another day it may be \$25,000 that are selling \$300 below their true value. Stoever Glass clients were the beneficiaries of these finds, usually without knowing it.

Stoever Glass has a reputation for being one of the most difficult places on Wall St. to get a job. But unlike Morgan Stanley for instance, where it is almost imperative that you have an MBA from Harvard, Wharton or Stanford, etc., Stoever Glass has always taken a different approach. While we do have and have had our share of people from Harvard, Wharton, Princeton, Wellesley, Amherst and so on, we also select from large state schools and smaller, less well-known colleges. However, we do subject all applicants to very extensive testing, including mental ability, aptitude and psychological testing. We insist on very high scores in each area and a cluster of strengths is always much harder to find than strength in one or two areas. This method of selecting well rounded people has worked well for us and has directly led to some of the accomplishments we're most proud of. No one in Stoever Glass history has ever failed the Series 7 Registered Rep. Exam (the national fail rate is about 35%).

And perhaps the record we're most proud of, our back office staff, one of the best on Wall St., average 8.3 years with (roughly 2½ times the average).

We mention these small anecdotes even at the risk of sounding a little boastful, because it will give you some insight into the type of company we are.

Business changes with time and as many of you know from first-hand experience, a business has to change with the times. So over the years as we have grown we have added a few new products—not at the expense of our expertise in the municipal bond business, but rather as a complement to it. We added Ginnie Maes, which have done very well for our clients. Particularly, those we were able to convince that premium—short average life Ginnies were best. Those clients have consistently earned 100 to 150 basis points more than equally secured Treasuries of similar maturities. We also introduced high-grade corporate bonds and Sallie Maes denominated in foreign currencies such as Australian, New Zealand or Canadian, and many of our clients earned 15 to 30% from those investments. Next we introduced buying and selling Sinking Fund municipals to our clients—not a new product but rather a new strategy at Stoever Glass, meant to generate high short-term yields. This strategy has often produced 15 to 20% annualized returns for one or two month holding periods. However, the sinking fund market is really designed for somewhat longer-term holdings—six months to a year and half—with yields averaging 50 to 100 basis points above the short-term market as the target.

We've come a long way since that day in 1964. We've added thousands upon thousands of clients and over 98% of them have done repeat business with us. We have witnessed the demise or takeovers of such giants as Goodbody & Co., DuPont Gore Forgan, Hornblower and Weeks, E.F. Hutton, The Franklin Bank, Thomson McKinnon and many more, both large and small. We have survived two major spinoffs, and we have continued to grow and emerge stronger each time. We have anticipated and adopted to changes in the industry, and prospered through it all.

As we have always done, Stoever Glass will continue to emphasize education and the development of new strategies so our clients get more out of the products we offer.

Many things have changed since June 1964, but our business principles have not. Profitability will always be important at Stoever Glass, but of equal importance is the way we earn those profits.