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HOW TO SELL YOUR MUNICIPALS AT THE RIGHT PRICE

Back in the fifties and sixties, when the municipal bond market as we know it today was in its infancy, it was difficult to feel assured that you were getting the best price for your bonds when you wanted to sell. And although the situation improved as the business reached its adolescence in the seventies and eighties, selling municipals was still pretty much catch as catch can. That's why, even to this day, many investors have the impression that municipals are hard to sell, although that is totally inaccurate today.

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STOEVER GLASS: A FACTOR IN THE MUNICIPAL BOND SECONDARY MARKET

To give you an understanding of why we are so willing to buy your bonds when you want to sell, let us start by explaining how we run our business. First of all, we are not brokers as we are often mistakenly called. We don't put buyers and sellers together for a commission the way brokers do. We constantly carry a multi-million dollar inventory of municipal bonds from which we sell hundreds of millions of dollars worth of bonds each year. So we have to buy that many or more each year to replenish our inventory so that we can continue to sell. In that sense we're like any other retail business. We're constantly buying for inventory and selling from that inventory. But we can't buy our inventory by calling a manufacturer or distributor and ordering what we want, the way most retail businesses can. As municipal bond dealers, we must bid competitively to buy what we need. And we buy our bonds from two sources: We use the primary market, which means participating in new-issue underwriting syndicates to buy directly from the issuers. But the vast majority of our buying is done in the secondary market, which in a nutshell, means bidding to buy any bond which is not part of a new issue—any bond that has been held for a period of time and then comes back on the market, including any you may wish to sell.

Most investors are more aware of the primary market, but few realize that the secondary market is not only much larger than the primary market but also more active. That's why buying and selling in the secondary market is precisely the area of the business in which we have developed our greatest expertise. Our secondary market trading department is one of the strongest parts of our organization.

Well over 90% of the bonds we buy for inventory are purchased in the secondary market, and from that inventory we sell our bonds all over the country, both wholesale: to the brokerage companies, on-line services, commercial banks, and retail: to our nationwide private clientele. So we're always in the market for bonds from every state, and in all sizes and shapes; from $5,000 worth to a million or more, non rated to Aaa, zero coupons to 8%'s, and from a few months long to 30 years long. Whether they were issued yesterday or twenty years ago, we're interested. We deal in an unusually wide variety of municipals, and that's important to you because obviously the wider a firm's range of interest, the better it is for you when you have bonds for sale.

PRICING A MUNICIPAL BOND IN THE SECONDARY MARKET

Some experts consider the secondary municipal bond market to be among the most complicated financial markets on Wall Street. Each bond has a different combination of maturity, quality, coupon rate, lot size and geographic factors and each of these elements affect the price at which the item is bought and sold. But to complicate things geometrically, the trader must put a price on each and every bond that will enable it to compete in the market with the thousands of other bond offerings available at the time. To do that, traders will evaluate the total of the elements mentioned above as a composite, weigh that composite against the composite elements of other bond offerings available, and determine a price that they think will make their offering competitive. They must also consider the direction they think the market will be heading and the potential interest their sales force has for each item. And to further complicate matters, there are no mathematical formulas they can rely on to arrive at an answer. It's an imprecise science but the good traders have a feel for it. They have a good idea of the other offerings available and they know what it takes to make each bond competitive in the marketplace. Still and all, the market is so subjective and diversified that even the best traders—though they will be stronger on a higher percentage—can't have the best bid for every block of bonds they bid on. And so it is with us. Even though our traders are among the most versatile and diverse bidders, we won't be the strongest bidder for every item.

So what we do for our clients whenever we have the slightest inkling that we may not have the most competitive bid for their bonds, is suggest that we put ourselves in competition for their bonds. And that's a service we're sure you'd like to know more about. So here's how it works. There are firms and online services in the municipal bond business that specialize in municipal bond brokerage. They're not the brokerage houses you're familiar with. These are actual municipal bond brokers who service bond dealers and dealer banks. There are only a dozen or so municipal bond brokers and online services in the country, none of whom are generally known to the public and none of whom do business with the public. Nonetheless, working in conjunction with a dealer such as Stoever Glass, they can do a lot for you when you want to sell. Which leads us to an explanation of what we mean when we say we'll put ourselves in competition for your bonds. Here's how we do it. We first determine our bid for your bonds and then we give your bonds to a bond broker to see if they can get a better bid for you. By doing so, we automatically access your bonds to the broker's closed circuit communications system. That means that your bonds will be seen by 300 or more traders, all across the country, with a potential interest in bidding for them. Near the end of the day when all of the bids have been compiled, the broker will report the high bid to us and if after adding on the broker's fees and our transaction costs, their price is still higher than ours, we will sell your bonds through the bond broker. If our bid is higher, we'll be happy to buy your bonds and put them directly into our own inventory. Either way, the process of selling your bonds requires much less than a day.

It is important to note by looking at the brokerage fees and our transaction costs (*See Schedule A) that for the smaller amounts ($5,000 to $24,000) the cost of doing business through a broker is higher—percentage wise—and that makes it more difficult for the brokers to top our bids. So a better method when dealing in amounts of less than $25,000 is to try an online service to get a bid for your bonds. (See "A Word About the Ethics Involved" below.)

When dealing with larger lots, however ($25,000 and up), where the percentage costs of doing business are lower, the chances for a bond broker to get a higher bid improves. So when dealing in larger amounts, it is usually better to have us put ourselves in competition by accessing your bonds to the bond brokers.

A Word of Caution: Whatever you do, don't jump to any conclusions as to the lot size you should buy for your portfolio because of what has been said in this article about the transaction costs incurred when selling smaller lots. Don't forget that the other side of the coin is that the smaller lots usually have higher yields than identical larger blocks. Carefully consider both sides before you make any decisions. Visit our website for a free copy of our educational article “Municipals And The Volume Premium”.

EXECUTING A SELL ORDER

When you have the luxury of time and if the market appears favorable, you can try to sell your bonds at the "ask" side of the market—less transaction costs. (Our schedule of transaction charges would be the same as those involved when we sell your bonds, on the "bid" side of the market, except that we must give a concession similar to our transaction costs, to the dealer that eventually sells your bonds.)

How do sell orders work and what are the advantages and disadvantages of selling bonds this way? Well, the major advantage is that since there is no market risk involved for the eventual seller of your bonds, his spread costs will be lower than they would be if he bids your bonds for inventory where they will have to build in more of a market cushion. And that makes the price to you higher. So selling on the "ask" side—less the costs—gives you the opportunity to try for a higher price.

Here's how it works. Based on the advice of our traders, you agree upon a price at which they think a sale would be feasible and at which you are willing to sell. Then just leave the rest to us. We will offer your bonds for sale on the Bloomberg system and other on-line services, where they will be seen by hundreds of municipal bond traders each day.

A few points to remember when considering the use of sell orders: Don't forget that when you use the sell order technique, it usually takes time, so there is always a risk that the market will turn around on you thus lowering both the "bid" and the "ask" price. Sell orders can be tricky business so our traders and representatives will work closely with you. It is best to heed their advice regarding any changes they suggest you make in the price of your offerings as dictated by market conditions or the speed at which you wish to sell.

All sell orders are good till cancelled. If you change your mind, call your representative immediately and he will pull the order for you. If you neglect to do so, and the bonds sell, we are obligated to the other side and you are obligated too.

Trying to sell amounts of less than $25,000 via sell orders usually is inefficient because of the combined transaction costs of the dealer you give the sell order to and the dealer who eventually sells your bonds. With the smaller lots, the difference between using the sell order method and asking two or three dealers to bid for your bonds would tend to be minimal and not nearly as fast. However, with larger amounts, the transaction costs are a smaller percentage, so even though you still run the same risk that the market might turn sour, if properly executed, using sell orders can often get you higher prices.

DON’T LET YOUR SAFEKEEPING BANK OR BROKERAGE FIRM BUY YOUR BONDS WITHOUT GETTING A COMPETING BID

The biggest mistake an investor can make is to give the broker or bank that holds their bonds the exclusive right to sell their bonds.

So if your municipals are held in safekeeping at a bank or brokerage firm as a portion of your” assets under management” be sure to get competitive bids.

People who would never put an extension on their house without getting at least two or three quotes first, none the less let their broker buy their bonds without a competing bid. And it usually costs them too. We know, because every day we see on the Bloomberg system bonds “purchased from customer” and bonds “inter dealer trades.” The bonds “purchased from customer” are invariably purchased at a lower price-sometimes 2 or 3 points lower for the same bonds.

Bonds are not like stocks where the price is basically the same from broker to broker. Bonds are more like cars, where three different people will offer three different prices for your used car. So be sure to get at least two or three bids before you sell your bonds.

And just because your bonds are held in safekeeping with a bank, brokerage firm or bond dealer, don’t feel obligated to sell your bonds through them. You are totally within your rights to sell your bonds to whomever you want, and it’s very easy for them to transfer your bonds from dealer to dealer as per your instructions. Remember: they are obligated to follow your instructions, not vice versa. You are free to do as you wish. They don’t have exclusive privileges just because they hold your bonds for you in safekeeping.

A WORD ABOUT THE ETHICS INVOLVED

- When selling bonds, be very careful to describe your bonds properly. Of course the bond's complete descriptions can be derived from the CUSIP number, which will appear on your original purchase confirmation, as well as on your statements.

- If you ask more than one dealer to bid for your bonds, you should instruct each of them not to put your items on a bond brokers' system or an online service. If you want your bonds put on a brokers' system, go to only one dealer and instruct them to give your bonds to a bond broker. And if that's what you want done, it's only fair that you favor the dealer who informed you of the service in the first place.
- If for example you have a list of 10 items for sale that you ask three different dealers to bid for, you should sell each item individually. It's not cricket to sell all 10 items to one dealer for the sake of convenience just because he was the high bidder on 8 or 9 out of 10. The other dealers who worked on your list should be rewarded with any bonds they had the best bid for.
- It is also considered very unethical in our business to "shop a bid." That means to tell dealer B what the highest bidder (dealer A) offered you and then see if he wants to top it. That is definitely unfair to the high bidder who puts his best foot forward in the first place. It also means that if dealer B is suddenly willing to pay more, when you tell them that they weren't high, they are not as ethical as you should want them to be. Bidding for bonds is subjective to a degree. One trader will prefer a particular bond more than another trader, but each trader is supposed to bid what they think the bond is worth in their judgment. No dealer will be the best on every bond but if you can get them to raise their bid after you tell them that they weren't high, that means they weren't up front with you to begin with.
- And hopefully it goes without saying that while we will not pressure you to sell, once you give verbal instructions to sell, it's final.

Although the above information and statistics are not guaranteed, they have been obtained from reliable sources and are believed to be accurate.