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Muni Bond Issuers Reach Out to Individual Investors (and Their Advisors).

With year-end tax planning and rebalancing in mind, financial advisors are well-advised to keep an eye out for large new-issue offerings.

On the heels of tax reform, the elimination of advance refundings, and record new-issuance municipal volume at the end of 2017, the municipal market was expecting new issuance to contract in 2018.

In spite of predictions, new-issuance volume in 2018 is just slightly behind 2017's pace. And as we look toward the end of the year, we may see more state and local government issuers coming to market to finance expanding infrastructure needs as well as refund outstanding high coupon debt — so long as long-term interest rates don't spike.

The chance of a spike, however, appears remote, as the municipal yield curve has been toying with inversion — where short-term rates are higher than long-term rates — since May 2018.

With new-issuance volume remaining robust, state and local government issuers are looking for more active participation by individual investors. And this spells opportunity for the fee-based advisor to take a more active role in new-issue underwritings for investor clients.

Practically all municipal market participants see the benefit of individual investors. State and local governments want individual investors because they tend to buy and hold their investments, supporting an issuer's long-term goals for raising capital. Likewise, these issuers see value in having local investors have a stake in local projects. Institutional investors see the benefit to individual investors as a ready market for secondary market support and liquidity.

As tax reform has placed limits on an individual filer's tax-saving deductions, municipal bonds have become one of the few reliable investments for reducing income taxes. While individual investors have yet to prepare tax returns for 2018 and realize the full consequences of tax reform, the municipal market has seen yields on issues from states with high income taxes like New York, New Jersey, California, Oregon, Minnesota and Vermont compress. Compression is a consequence of investor demand resulting from the implementation of the tax overhaul.

States, local governments and schools are expanding their outreach to individuals with the intent of stimulating investor demand. Dedicated bond-buying websites, online "road shows," conference calls with governors and state treasurers, and internet and radio advertising are all promotional means used by municipal bond issuers to attract individual investors and the fee-based advisors who serve them.

Some issuers have even attempted to reduce the minimum investment in a municipal bond to attract more individual investors. However, this notion hasn't received much traction, as such "mini-bonds" offer limited liquidity and inefficient recordkeeping. Municipal bonds are typically sold in $5,000 denominations, but the average trade in July 2018 was approximately $300,000. The $5,000 minimum generally steers away small investors who may not be able to reap the full benefit of the preferential tax exemption, keeping the market efficient.

The large volume of new issuance combined with the issuers' express interest in having individual investors engaged have created an opportunity for fee-based advisors to both put in orders at the point of new issuance and receive confirmations of allocations.

For some of the largest and most liquid issues on the Street, issuers are giving priority to individual investors and their fee-based advisors. This means advisors and their clients are receiving access to opportunities that are traditionally available only to institutional investors. Advisors now have the tables tilted in their direction for some municipal issues. Recent issues from Vermont, Massachusetts (including the recent Commonwealth Water Trust Green Bonds), California, the City of New York, NYC's Municipal Water Finance Authority, and the NYC Transitional Finance Authority have all sold bonds this summer offering priority to advisors and their clients.

Issuers have also been binding their underwriters to rules that give preference to individual investors, meaning individual investor orders have priority above institutional orders. Most importantly, the pricing is the same for individual and institutional investors.

This encouraging trend means a fee-based advisor who has a trading account with the lead manager, co-manager or selling group member can enter orders with a much greater chance of allocation, as these issuer-imposed guardrails prevent the book-running lead manager from violating the issuer's intent to give priority to individual investors.

With year-end tax planning and rebalancing in mind, financial advisors are well-advised to keep an eye out for large new-issue offerings designed to give preferential outreach to individual investors. New issues favoring individual investors are likely to be plentiful through December, presenting abundant opportunities for tax-efficient investments.

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Previously, Tom was a managing director at Stone & Youngberg and a member of the company's executive committee and board of directors. Over his 30-year career there, he structured more than 500 municipal bond issues representing more than $6 billion.

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