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Prophet of Muni Market Doom Wasn't Wrong - Just Early.

A false alarm may have lulled investors and pensioners into a false sense of security as conditions have worsened significantly

Eleven years ago next week, a then-obscure bank analyst made the call of a lifetime when she said Citigroup would be brought low by bad mortgage loans. By the end of the day hundreds of billions of dollars in value had been lost in U.S. stocks. The bank's CEO would resign days later.

Maybe it was overconfidence, but when Meredith Whitney made her second big call three years later she violated the first rule of punditry—never mention a number and a date in the same sentence. Her prediction on “60 Minutes” that there would be “50 to 100 sizable defaults” on municipal bonds over the next year proved wrong. People in the municipal bond business, deluged by anxious clients, were merciless in their criticism of Ms. Whitney's prediction.

Since then a dramatic decline in the finances of state and local governments has made it increasingly likely that she will be remembered as right but early. Municipal bond investors should heed the warning.

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