# Bond Case Briefs

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## Don’t Let Muni-Bond Markups Sap Your Returns.

Investors seeking to buy municipal bonds should watch out for the markups that plague the market for debt sold by U.S. cities, states and other public entities.

A trio of U.S. regulators has begun heightening their surveillance of those fees, collecting troves of electronic bond quotes and scrutinizing trading in the $13 trillion corporate, agency and municipal bond markets.

For investors looking for individual bonds, the Electronic Municipal Market Access website, known as “Emma,” provides a wealth of information that can help people determine prices and avoid steep markups. Run by the Municipal Securities Rulemaking Board, Emma stores municipal issuers’ disclosures, documents, trade data and other information.

Last year, the site added a price-disclosure tool, allowing investors to compare the trade histories of bonds with similar characteristics, helping to establish comparable prices for securities that don’t change hands often. New features also let users graphically display what others are paying for a security on any given day.

Investors buying both municipal and corporate bonds could also soon see more pricing transparency on their trade confirmations under new rules proposed by the MSRB and the Financial Industry Regulatory Authority. The proposal would require brokers to disclose on the confirmations the prices they paid that same day for the same bond issue. The disclosure would go to anyone buying less than $100,000 in bonds.

Some financial advisers suggest mom-and-pop investors stay away from buying individual bonds, because even small markups can eat up the returns on low-yield securities, and those fees can be hard to identify.

Allan Roth, founder of Colorado Springs-based Wealth Logic, says most people should instead buy low-fee bond funds. The markups funds pay are smaller, because fund companies buy in bulk and know the market. Funds also help investors diversify, by holding bonds from many different issuers.

“Even if I have $5 million to buy municipal bonds, I really can’t diversify enough by buying individual bonds,” Mr. Roth says. “And if I have $500,000, then I really can’t diversify.”

Buying municipal bonds from your home state often provides the biggest tax breaks, but it also ties your bond investments to the same economy that supports your job and the market for your home, he says. Muni bonds make up about 10% of the bond market, but comprise closer to 90% of many investors’ bond portfolios. Mr. Roth says the limit should be 20% to 25%.

With interest rates low, some analysts and advisers recommend staying with short- or intermediate-term funds, because longer-term debt is the most vulnerable to losses when rates rise. Investment researcher Morningstar recommends several such funds with low fees, including the Fidelity Intermediate Municipal Income Fund, the T. Rowe Price Summit Municipal Intermediate Fund and the Vanguard Intermediate-Term Tax-Exempt Fund.

Vanguard Group also recently filed regulatory paperwork to launch its first municipal-bond index fund, to be called Vanguard Tax-Exempt Bond Index Fund. The target benchmark is the S&P National AMT-Free Municipal Bond Index and the firm says the fund is designed to offer exposure to investment-grade municipal bonds across the entire yield curve.

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