

Bond Case Briefs

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Ratings Agency Finally Gives Some Bond Investors Respect.

Aretha Franklin's 1967 R&B hit song, R-E-S-P-E-C-T, had people singing the word as we wrote it. We also sang the spelling in our heads as we said it out loud. In mid-January, R-E-S-P-E-C-T came vividly to mind when Moody's rating service withdrew ratings on 25 New York issuers. Moody's took this action because these 25 issuers failed to provide 2013 financial statements to the public.

Finally, a rating agency giving some respect to bond investors. Issuers that wanted and received investor money when they originally came to market with new bonds subsequently thumbed their noses at investors by foregoing disclosure of their financial results in later years.

When a municipality fails to disclose financial results investors cannot possibly know what they own. A publicly traded company that fails to report its financial information quarterly will quickly see its share price plummet and may even be delisted by its stock exchange. A punishment well deserved.

Disclosure requirements for municipalities include annual financial statements. Not a difficult requisite. Yet many either cannot or will not provide them. That shows investors no respect, no honesty, and very little financial competency.

When a new client comes to us with municipal holdings that have no financials, we sell them immediately. It surely doesn't mean the bond issuers will soon declare bankruptcy. But it does show a lack of abiding by the municipal bond rules and regulations. A management that shows a total lack of regard and transparency for the bondholder is not a management in which anyone should invest.

Kudos to Moody's for yanking their ratings on these 25 bad citizens. They don't deserve to be rated. Such munis often descend into a different category: Unrated. Most do-it-yourself investors don't buy unrated munis. Junk municipal bond funds, speculators and a few risk takers who know what they're doing usually inhabit the unrated sector. So always scan carefully your monthly statements and your online alerts for investment grade municipal bonds that have sunk into the junk pile. Keep tabs on your muni holdings and their financials at the MSRB web site.

Here's the list of New York issuers that Moody's will no longer rate:

- Village of Airmont
- Town of Bolton
- Town of Boston
- Town of Busti
- Cicero
- Dickinson
- Erwin
- Esopus
- Fort Ann
- City of Gloversville
- Town of Greenport
- City of Johnstown

- Town of Lake Luzerne
- Lansing
- North Dansville
- North Greenbush
- Royalton
- Schaghticoke
- Schodack
- Stone Ridge Fire District
- Vrigil
- Volney
- Watertown
- Wawayanda
- Woodbury

So what municipal bonds should investors be buying? Buy State Intercept Bonds. That is municipal bonds that carry a pledge of state cash to investors if there is a default by the issuer. There are State Aid Intercepts, State Tax Intercepts, State Guarantees and State Permanent Funds. Just make sure the state is creditworthy and can step in if needed. Clearly, stay away from Illinois.

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