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Municipal Priorities: How To Avoid The Sinkholes.

Sometimes things go wrong with a corporation. It could be hugely disappointing quarterly revenues and earnings. Maybe low energy prices or competition annihilates the sector. It happens. Corporate bond prices of these disappointing companies also decline as their spreads to comparable maturing Treasurys widen.

Some examples of bad news we've seen are Under Armour, Macy's and other retailers getting 'Amazoned.' Hertz restating financials is another. You get the picture. A corporate bondholder can lose 5 to 10 points in a flash. The really bad news is announced and—BAM—it's instantly reflected in lower bond prices.

But the municipal bond market works differently from the corporate bond market. Munis respond to news in glacial time. There's no need to react to bad news in the next nanosecond. That's not the way munis trade. Investors have plenty of time to digest news, numbers and consequences before making a decision.

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Forbes

by Marilyn Cohen

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