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Brokers Polish Resumes as New Muni-Bond Rules Threaten Business.

- **Fee disclosures may curb trading by individual investors**
- **'They're expecting their flows to go way down,' firm CEO says**

Employees from banks and securities dealers have flooded investment firm Gurtin Municipal Bond Management with resumes, anticipating that new rules requiring them to disclose what they charge customers on trades of state and local government debt will shake up the industry.

The job hunting reflects anxiety that individual investors, the market's biggest customers, will revolt by shifting their money into mutual funds and other fee-based accounts, said Bill Gurtin, the chief executive officer of the Solana Beach, California-based company, which oversees $14 billion. His firm is one that stands to gain.

"They're expecting their flows to go way down on the retail side," Gurtin said in an interview.

Starting May 14, brokerages must begin reporting some of the fees they charge on municipal bond trades, which are currently hidden because they're embedded in the price brokers quote when they buy and sell bonds for their customers. Many investors probably don't know what they're paying, but it can be significant: They averaged about 1.1 percent on investment-grade bonds in 2016, or $1,100 for a $100,000 bond, according to S&P Global

Analysts are speculating that the revelation could accelerate a shift toward managed accounts by individuals who directly own about $1.6 trillion, or 40 percent, of the outstanding municipal securities. That's because the fees funds charge will look cheap compared with what it costs for individuals to trade on their own. They also provide diversification and services like credit research.

The shift toward professionally managed accounts is already well underway, in part because the record-setting bankruptcies of Detroit and Puerto Rico heightened investors' awareness of the risks associated with individual bonds. The amount of state and local debt held by mutual funds has nearly doubled since the end of 2008 and individual ownership has dropped, according to Federal Reserve Board figures.

The further decline in trading by individuals may lead dealers to reduce their already lean municipal-bond inventories and cut jobs dedicated to such trading, including strategist and analyst positions, Gurtin said. As bank inventories decline, it will be harder for them to serve clients because they don't have access to a wide network of bonds.

"It's going to make their job more difficult," Gurtin said.

He declined to name the firms currently employing the job seekers.

The greatest impact may be felt at small, regional brokerages that execute "odd lot" trades of less than $1 million, said Andrew Clinton, founder of Stamford, Connecticut-based Clinton Investment

Management, which oversees $520 million of municipal bonds. Smaller trades make up the bulk of the market's daily volume.

The new disclosures are "absolutely going to hurt the retail desk at every shop from the biggest to the smallest," Clinton said. "If each time you do a transaction as an individual it costs you two points, you're probably less likely to do a transaction."

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By Martin Z Braun

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