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Know This Fact Before You Buy A Muni Bond.

When looking for municipal bonds to buy, there are numerous details to study before pointing and clicking to buy or telling one of the few live brokers still around to pull the trigger. Let's go through the steps with a recent example.

Pulaski Community School District in Wisconsin came to market with a new issue. The bonds offered were 3% due March 1, 2022, CUSIP: 745763KU5, rated Aa3 by Moody's with an extended settlement date of July 2, 2018.

That Pulaski is in Wisconsin is a good thing. Also the district is just 18 miles from Green Bay—also good. Its tax base is growing, there's low unemployment, the area's economy is stable, there's a surplus in the general fund, more reserves will be added in 2018 and 2019, there's modest debt, the main source of revenues is property taxes and state aid. All are good signs.

What isn't so good is that there are just 3,740 students in the Village of Pulaski and the issue size is just a meager $2.3 million with a maturity size of just $100,000. That's the killer.

You can have all the fundamentals, all the statistics and ratings align with the municipal universe. But if you don't have the liquidity, then nothing else matters.

Just think if you had purchased $25,000 of this $100,000 maturity—and if you ever needed to sell it, who would buy it? Probably another unsuspecting retail investor who was unaware that this was a tiny issue with a microscopic maturity size.

I'm not saying that there wouldn't be any bids for this bond. I am saying that if the bid is from someone knowledgeable, then they will want to get paid significantly more yield for the lack of liquidity.

Here's another example: Dallas-Fort Worth Texas International Airport Revenue, 4% due November 11, 2027, CUSIP: 235036XG0, rated A1, A+, A+. The issue size is $274.9 million, maturity size is $4.51 million.

The fundamentals are all good as follows: This is the primary airport for the Dallas-Fort Worth area, it is the fourth busiest airport in the world by aircraft movements and twelfth busiest by passenger traffic. Debt service coverage in 2017 was 1.46 times with 714 days of cash on hand.

The size of your bond maturity is important. It potentially provides liquidity. But so does demand for quality bonds such as this. If we—as money managers—or you ever decide to sell these bonds, they'd be snapped up in a minute. Dealers can easily attach a bid, confident that this is a large issuer. The Dallas-Fort Worth Airport is a matcher for most institutional portfolios. Matchers are matching names portfolio managers already own. They don't necessarily need the same coupon or maturity but they want the same issuer.

Institutional holders in the various series (maturities) include Teachers Insurance, Sun life, T. Rowe Price, Hartford Financial, Horace Mann…you get the idea. In the case of muni issuance—bigger is

better.

Forbes

by Marilyn Cohen

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