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If You Wanted the Best Muni Trade, You're Three Hours Late.

- **BondWave analyzed every municipal bond trade in 2018**
- **It found the best time is when volume peaks around 10:50 a.m.**

When's the best time to buy municipal bonds? Around three hours ago, according to an analysis of daily trading patterns by BondWave LLC, a financial technology company.

The par volume of broker purchases from customers soars between 10 a.m. and 11 a.m. New York time and peaks around 10:50 a.m., when investors sell securities to free up cash for new issues that are being priced at 11 a.m., according to the Wheaton, Illinois-based firm's analysis of every municipal-bond trade in 2018.

The buildup in volume, especially on days with big new issues coming to market, can be a boon for buyers who can get better prices from brokers who don't want to hold the securities they've purchased in their inventory, said Paul Daley, a managing director of BondWave's Fixed Information Lab.

"If I'm in the market and I'm not buying a new-issue bond it seems to me to make a lot of sense that I would time my purchase for whenever everyone else is selling," said Daley. "I'm probably going to get better deals on average if I do that."

By contrast, investors like bond-fund managers looking to raise money to buy new issues should start selling sooner, before broker inventories rise, the analysis suggests.

Unlike stocks, which trade on exchanges, bid-ask spreads — the difference in price between the highest amount a buyer is willing to pay and the least a seller is willing to sell — aren't publicly available before trades in the fragmented and relatively illiquid state-and-local government debt market.

While the cost of trading bonds has declined since electronic trading expanded and regulators injected more transparency into the market, asset managers who seek market-beating returns are under pressure to reduce fees. Looking at volume patterns after trades occur can help then make educated bets on when bid-ask spreads tighten, signaling the odds of getting better deal, Daley said.

The average spread between what a seller receives and a buyer pays for a security with dealers acting as an intermediary dropped to 73 basis points in April, less than half what it was in 2005, according to an analysis by the Municipal Securities Rulemaking Board.

To be sure, the decline was most pronounced in retail sized trades of $25,000 or less, while spreads on trades of more than $1 million average about 18 basis points and have remained constant, according to MSRB data.

Experienced professionals may well know that the mid-morning is a good time to trade in a

qualitative sense. But Daley, a former head of execution at an algorithmic equity trading technology firm and onetime head of derivative and portfolio trading sales at Merrill Lynch, is relatively new to the bond market and wanted to use his experience to understand it.

“My background is 100 percent in the equity market. I’m used to that level of data, clarity and granularity,” he said. “How do I better understand the municipal marketplace?”

BondWave, a unit of closely held investment manager First Trust Portfolios LP, provides portfolio and trading analytics to traders and advisers. Bloomberg LP provides similar services.

Bloomberg Markets

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