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The City of Stockton Bankruptcy.

During the great recession of 2008, investors saw some of the biggest names in the private sector going under within months – Lehman Brothers and Washington Mutual, to name a few – and many were “bailed out” by the federal government in an attempt to stop the bleeding.

Investors throughout the U.S. and around the world were fearful for the future of their own holdings in the private sector, and the words of Sir John Templeton were more relevant than ever, “Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.”

Throughout all the chaos, investors weren’t really concerned about the world of municipal debt. For an ordinary investor, the municipal government is just as secure as the federal government and their investments in municipal debt are almost recession-proof. The commonly held belief amongst many investors is that if the government is struggling to make payments on its obligations, the elected officials will simply increase the taxes to bring back the revenue or any potential shortfalls – until Detroit and Stockton happened. These two municipal bankruptcies were a wake-up call for many investors around the world that municipal debt isn’t recession-proof and that every municipality is different in how it manages its operations and debt.

In this article, we will take a look at the municipal bankruptcy of the City of Stockton and what led to the Chapter 9 filings.

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