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WSJ: Some Investors Are Still Paying High Prices for Munis

Some muni market investors are paying far more than others for the same bond on the same day, even after a 2018 rule improved the situation somewhat.

That's the upshot of two recent analyses of trading in municipal bonds, debt issued by state and local governments. Wealthy U.S. households like munis because their interest is tax-exempt. But unlike with stocks, there is no publicly searchable daily price information. Wall Street bond dealers broker the trades, deciding what prices they are willing to pay sellers and how much to accept from buyers.

In 2018, the SEC mandated that after an investor buys a bond, the dealer must provide a disclosure giving them an idea of what others had recently paid for it. Trading costs subsequently fell on frequently traded bonds, according to a paper presented Wednesday at the Brookings Institution by a University of Nebraska-Lincoln graduate student.

But a survey of trading data collected during two three-day periods of relative market calm this year found that for about 20% of the debt traded multiple times during those stretches, the highest price paid for a specific bond was at least 1% more than the lowest price. For almost 4% of the debt, the difference was greater than 3%.

That analysis, by fixed income research and data firm Solve, found dealers benefitting from the gaps. In one example, a dealer gave an investor $28,495 for some New York Metropolitan Transportation Authority bonds, then within a few minutes turned around and sold them to another dealer for $28,928, netting a profit of about $433. On another morning, three dealers traded bonds from a private college in Pennsylvania among themselves before an investor finally bought the bonds for $48,100 – or $918 more than the highest price any dealer had paid.

The Solve analysis echoes findings two years ago by a trio of professors who found dealers mark up prices when investors are less likely to notice.

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