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WSJ: A Mystery in the High-Yield Muni Market: What Are the Riskiest Bonds Worth?

Junk-bond prices are ‘written in pencil, not pen’

When a tiny mutual fund dumped bonds recently, the low prices it got affirmed an alarming reality for investors in risky municipal debt: Many securities turn out to be worth less than shareholders have been told.

Shares of Easterly Asset Management’s high-yield muni fund in early June cost about $6, based on Easterly’s estimated value for each bond in the fund. But many of those bonds hadn’t traded in years. And when Easterly began rapidly selling some last month, buyers weren’t willing to pay nearly the amount fund managers had estimated.

An Easterly spokeswoman said true price discovery is only possible when bonds trade in the market.

Continue reading.

The Wall Street Journal

By Heather Gillers

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