

Comment on Notice 2013-16

from Private Investor,

on Monday, September 02, 2013

Comment:

I've had several experiences in past where I've put up a "bid wanted" for some of my bonds through my broker and have had dealers (I assume they are dealers) come back with prices - believe it or not - 8-10 points lower from where the bonds last traded intra-day!

Of course, the bids come in anonymously, so I can't tell who's on the other end, but to me a basic market "price check" by looking at the MSRB historical trade data should be done in order to protect the retail seller from getting ripped off by the bond dealer. There should be some kind of MSRB rule that if a bond has recently traded at, say, 115, that a dealer cannot offer to buy at a price more than n-points from where the last trade was done? For example, maybe that's 3 points away from the last trade, thus dealer cannot buy for lower than 112 in my example.

I've even seen bonds for sale where it's clear the dealer recently bought the bonds from the customer at a very low price, and then turns around to "flip" the position to some uninformed investor for a 5-8 point profit! I've seen many examples like this, and I'm sure if you mined the MSRB trade data you could find plenty of other examples where the prices paid/received by customers were well away from where the dealers delt. Maybe the MSRB has done a study comparing dealer execution prices versus customer execution prices? I'm sure there are plenty of examples of what I speak of hiding in plain sight.

In any case, given the retail nature of muni bond market, I feel that dealers prey upon investors who don't know about using the MSRB trade price history as a guide to what a fair price might be. What can MSRB do to force dealers to conduct an evidenced market "price check" prior to responding to a customer's bid wanted? MSRB needs to do more enforcement here.

Maybe by working more closely with the SEC and adopting something similar to TRACE, MSRB can finally bring some much needed price transparency to the muni bond market.

Sincerely,
Private Investor