Markets

By Chad Greene for USA TODAY

Burned by auction-rate securities: Bernadine Abbott goes for her daily walk around her neighborhood on June 7 in Crossville, Tenn. Abbott invested $250,000 in bonds late last year that she thought would keep her money easily accessible. In April, her broker told her she couldn't access the money.

Bonds 'a dark corner' of market

Even professionals have a tough time finding information

By Matt Krantz
USA TODAY

"Bond" is a dirty word for Bernadine Abbott.

Abbott, a 69-year-old retiree, invested a large chunk of her savings, $250,000, in bonds late last year, thinking it was a good way to park her cash and beat a savings account's return. She bought them through a broker who assured her they were solid investments, like a money market fund, as good as money in the bank. And he said she could get her cash anytime.

Imagine Abbott's surprise in April when her broker told her she couldn't touch her money because the credit crisis had locked it up — and shut off the easy access she had expected.

Abbott is one of many investors — both big professionals and individuals — who got snared buying auction-rate securities (ARS). Regulators are swarming over the crisis. Wall Street banks that sold the bonds are offering to settle with authorities and pay investors back. Abbott is still waiting to see if she will be made whole.

While the ARS meltdown is an extreme example, it highlights how the bond market is a vastly different animal than the stock market. With bonds, even pros at times have difficulty finding out what is going on — even something as simple as what they are buying and at what price.

"The bond market is not nearly as transparent as the stock market," says Ed Wedbush, founder of brokerage Wedbush Morgan, which trades both stocks and bonds. "It's still a dark corner of the financial markets."

Dark and massive

Dark maybe — but massive, too. The U.S. bond market was worth $29.2 trillion in 2007, says financial research firm Celent, making it the largest market in the world. By contrast, the U.S. stock market is worth about $15.8 trillion.

The lack of transparency is a large reason for the credit market's recent collapse and continuing troubles, says Wayne Klein, principal for financial research firm Lewis B. Freeman & Partners and former director of the Utah Division of Securities.

In many ways, the bond market operates just as it did decades ago, such as:

▸ **Executing trades.** When you buy or sell a stock, your order is routed to an exchange such as the Nasdaq Stock Market or New York Stock Exchange, which provides a way for buyers and sellers to congregate and trade.

Bond trades, on the other hand, are in many cases privately negotiated between buyers and sellers, often over the telephone. When bond investors, such as Thomas Atteberry at First Pacific Advisors, want to buy a bond, they may call three or more brokers they think might have the security.

The lack of a central place for buyers and sellers to meet creates inefficiencies, Klein says. "We brag about having the most liquid and deepest pools of capital in the world, but the bond market is like stocks sold in the 1970s. It's inexplicable."

▸ **Getting bond prices.** Punch a stock symbol into a financial website, and you'll get the price within the past 20 minutes, if not in real time. You can also see the stock's price history.

Good luck getting some of the same information on certain bonds. Many popular news websites don't have any information on bonds beyond prices on U.S. Treasuries and some corporate bonds. And data at the sites that do can be limited, sometimes offering just end-of-day trades.

Brokerage statements provided to investors to track the performance of bonds and fees associated with them, too, can be very difficult for many individual investors to decipher, says Kenneth Winans of financial advisory firm Winans International.

And even systems provided by the regulators can be limited, especially historical price data on many bonds. The EMMA system operated by the Municipal Securities Rulemaking Board (MSRB), for instance, provides little information on ARS bonds and no trade data prior to 2005 on bonds sold by cities and municipalities. The MSRB is planning to enhance the data it provides on ARS and other bonds by next year.

▸ **Tracking some issuers' health.** Companies that issue stock must give investors in-depth and audited financial reports. Companies that issue bonds must do this as well.

But issuers of municipal bonds are not required to make such information readily available to investors. "No one can tell issuers to do that," says Lynnette Kelly Hotchkiss, executive director of the MSRB. The information may not be available to individual investors or obtained only after paying a fee.

Modernizing efforts catching on

Certainly, not all parts of the bond market are so difficult to understand. Investors can get the yields and prices of U.S. Treasuries on websites. Professional traders can access information about more obscure bonds from their trading workstations.

Meanwhile, efforts to modernize the way bonds trade are beginning to catch on. Ten of the largest bond dealers have taken a stake in Thomson Reuters' Tradeweb, which is a digital exchange to allow bonds to trade much like stocks do.

About $300 billion of bonds are trading through the system daily, says Tradeweb CEO Jim Toffey, accounting for about a quarter of daily bond trading volume.

Restricted Stock Partners this year began allowing investors to sell ARS to one another. Meanwhile, Fidelity has expanded its Open Bond Market trading system, allowing individual investors to trade 15,000 different bonds similarly to how they'd buy or sell a stock, says James Burton, senior vice president of brokerage products.

But work still needs to be done. "There's been a lot of progress made, but it will accelerate," Wedbush says. "Once you have transparency and electronic information, everyone wants it."