

COST & FEES OF PURCHASING BONDS

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Q: *What does the dealer earn in the sale of municipal bonds? Why is the transaction cost never listed when prices for bonds are quoted? Are individual dealers able to set their own prices for the bonds they offer? How much of a cut do they usually take?*

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A: While stockbrokers clearly state the commission they charge to buy or sell a stock, municipal-bond broker-dealers build their commission into the sales price. That means you have to ask if you want to know how much he or she is making on the transaction. Typically, the markup for individual investors is between 0.5% and 3%, which comes out to between \$5 and \$30 per \$1,000 bond.

Moreover, each firm sets its own prices, based on factors such as whether the bond is in inventory, the size of the bond and even the relationship with the buyer, says Lynnette Kelly Hotchkiss, senior vice president and general counsel for the Bond Market Association. "There may be a wealthy individual who buys \$500,000 of bonds every year," she says. "He might get a lower markup."

To get an idea of whether you're being charged fairly, you can check the Bond Market Association's Web site at www.investinginbonds.com. It lets you look at recent trades, sorting data by state, maturity and other factors. It even shows the difference in price paid by individual investors and bond dealers.