

Excerpt from “What Are They Thinking,” by James Picerno, *Financial Advisor Magazine*, August 2012

Stan Richelson

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*Recommends: A proprietary list of muni broker/dealers*

The world of bonds may appear more serene and uncomplicated than stocks to the casual observer, but appearances can be deceiving. Those who buy and sell individual bonds – as Richelson prefers to do – face Byzantine variables. That’s particularly true for his fixed-income preference – municipal bonds, which suffer from illiquidity, variations in call provisions, etc. The only way to navigate this maze is to develop a network of broker/dealers that specialize in munis, says Richelson, co-author of the book *Bonds: The Unbeaten Path to Secure Investment Growth* (Bloomberg, 2011). Otherwise, there’s little alternative, since there’s no consolidated, liquid marketplace for munis.

It’s taken Richelson years to piece together his trusty list of 15 B/D sources, he explains, a critical resource if he’s to find specific munis at competitive prices. “It’s not like trading stocks,” he emphasizes. “There are 500 big stocks and another 2,500 smaller ones, and they’re all available, whomever you call.” Bonds are different. “There are over 1 million discrete issues, and I’m just talking about munis.”

He says it’s no small advantage that 15 brokers are routinely advising him on their inventory. On any given day, he may be investing several million dollars for clients, although most of that comes from rollovers with maturing issues. In the old days, he says, you could call Merrill Lynch and they’d quote from a huge inventory. But the muni market has evolved, and inventories at any one broker tend to be lean these days. Richelson’s network also comes in handy when he’s selling. In those instances that he’s a seller, his ability to review five or 10 bids from brokers at once is a powerful advantage for securing a fair price.

His network includes several familiar names – Morgan Stanley, Merrill Lynch, Wells Fargo – along with less-conspicuous players such as small regional banks. But the real advantage – his proprietary edge, as he sees it – is his long-standing relationships with the individuals at these firms. “We’ve found brokers who spend the bulk of their time in munis.”

You can ask Richelson just about anything on the topic of munis and he'll respond authoritatively and at length. But just don't ask him to names names in his network. That's the one subject in fixed income on which he's speechless.