

California Debt Investment and Advisory Committee Municipal Debt Essentials: Accessing the Market

March 14, 2012

Fidelity Capital Markets (FCM) Facts

- Customer-focused institutional trading firm under the Fidelity umbrella
- FCM is a full service underwriter with \$2 billion capital base*
- Conduit to 12.6 million individual accounts and with \$1.5 trillion in assets**
- Active in competitive municipal market since 1987
- Began seeking role as co-manager in 2007 to help meet demands of retail investors

- Debra Saunders
 - Over 20 years as credit analyst at Ambac Assurance
 - Masters in Public Administration
 - Series 7, 63
 - Opened West Region Municipal Underwriting office for Fidelity Capital Markets in 2010

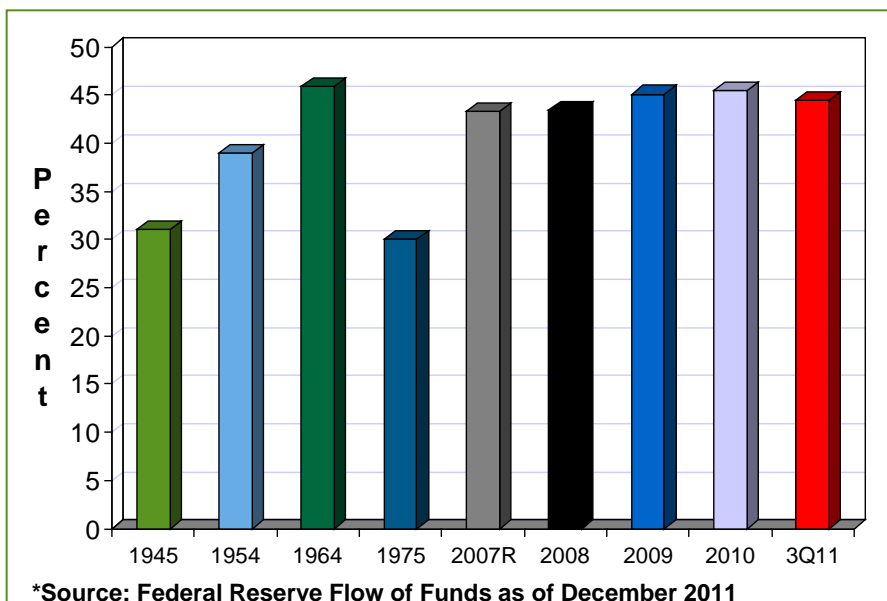
* December, 2011 FOCUS Report

** Fidelity unaudited data as of January 30, 2012

Retail ownership of Municipal Bonds

- **Households hold 45% of municipal securities**
 - Household = farm households, domestic hedge funds, private equity funds, and personal trusts
 - Excludes bonds owned indirectly, such as through mutual funds, which hold about \$528 billion.
- **Federal Reserve quarterly data revised in 3Q 2011**
 - Retroactive to 2004
 - Outstanding municipal securities revised up by \$870M
 - Municipal securities held directly by households revised to \$1.7 trillion from \$1.07 trillion in the 2Q2011 report

Holdings of municipal securities by households as percent of outstanding*



Fair treatment of individual buyers of municipal bonds -- regulatory attention

- Dodd Frank requires GAO to review aspects of the municipal securities market, including trading and price discovery
- GAO found that institutional investors generally trade at more favorable prices than individual investors.
- SEC is investigating pre-trade price information
- MSRB is committed to increasing pricing transparency for retail investors, but lacks enforcement powers. GAO is also required to determine how federal regulators enforce MSRB rules
- Municipal market is large, relatively illiquid, heterogeneous which creates challenges to secondary market pricing transparency

Faces of Retail

- Mom and Pop
- High-Net-Worth
- Separately Managed Accounts (SMAs)
 - Professionally managed retail
 - SMAs and individuals have relationships with only a few firms – reduces duplicate orders
 - Relatively committed to particular platform
- Trusts and Family Offices
 - Build syndicate that can reach all investors
 - Use firms with skills that complement each other
 - Add co-managers that specialize in distributing to distinct pools of investors

How individuals buy bonds*

MSRB Statistics and what they say about the municipal market

- 14,393 new issues in 2010, 10.5 million secondary market trades
- Over 80% of secondary market trades in 2010 were \$100,000 or less (\$100K used as proxy for individual retail)
- Average daily trade size has been dropping since 2007 from over \$600,000 to under \$400,000
- 2 million trades, 36% of par occurred within 1 months after initial offering date in 2010.
- by 6 months, 96% of par amount of bonds have been traded
- Thus, almost 40% of bonds are sold to buy and hold investors **very soon after issuance**
- Three times as many customers bought from dealers as sold to dealers

*MSRB, 2010 Fact Book

Where Did All the Retail Go?

Why is such large segment of ultimate owners absent during bond issuance?

Historically, order periods were 3 weeks long, broker dealers were paid 4% to find buyers and had plenty of time to do so

- Model has shifted due to technology and competition
 - Lower takedowns
 - Wholesale-oriented platform/move bonds quickly

- Inefficiencies in the market seem to benefit institutional buyers
 - Fast pace/internal resources
 - Bonds may be “flipped” to retailers

Analyzing MSRB Secondary Market Trading (1)*

MSRB Municipal Securities Rulemaking Board
EMMA® - Electronic Municipal Market Access
 The Official Source for Municipal Disclosures and Market Data

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Home > Multi Search > Search Results > Issuer Details > Issue Details > **Security Details**

Security Details

NEW YORK STATE HOUSING FINANCE AGENCY STATE PERSONAL INCOME TAX REVENUE BONDS (ECONOMIC DEVELOPMENT AND HOUSING) 2009 SERIES A (NY)
 NEW YORK ST HSG FIN AGY ST PERSONAL INCOME TAX REV ECONOMIC DEV & HSG-SER A (NY)
CUSIP: 649870LB6*

Dated Date: 06/27/2009
Maturity Date: 03/15/2024
Interest Rate: 4 %
Principal Amount At Issuance: \$2,845,000
Initial Offering Price: 98.254

Official Statement | Continuing Disclosure | **Trade Activity** | Ratings/News

View transaction price and yield information for trades in this security since January 31, 2005.

Trade Activity
 Displaying 101 - 146 of 146 trades.

Free

Trade Date/Time	Settlement Date	Price /Yld	Yield /Yld	Trade Amt. /\$	Trade Submission Type	
06/13/2009 - 01:21 PM	06/27/2009	98.2640 4.18		5,000	Customer bought	W
06/13/2009 - 01:30 PM	06/27/2009	97.7640		30,000	Inter-dealer Trade	W L
06/13/2009 - 01:30 PM	06/27/2009	97.7640		355,000	Inter-dealer Trade	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		100,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		50,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	97.7640		50,000	Inter-dealer Trade	W L
06/13/2009 - 01:30 PM	06/27/2009	97.7640		25,000	Inter-dealer Trade	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		30,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	97.7640		150,000	Inter-dealer Trade	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		50,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640		100,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	97.7640		100,000	Inter-dealer Trade	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		200,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		50,000	Customer bought	W L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18		35,000	Customer bought	W L

[http://emma.msrb.org/SecurityView/SecurityDetails/Trades.aspx?cusip=649870LB6\(02/13/2012 10:00:19 AM\)](http://emma.msrb.org/SecurityView/SecurityDetails/Trades.aspx?cusip=649870LB6(02/13/2012 10:00:19 AM))

Municipal Securities Rulemaking Board-EMMA

06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	30,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	150,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	50,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	565,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	355,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	50,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	50,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	200,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	100,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	250,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	990,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640	50,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640	50,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640	15,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	20,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	250,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640	25,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	200,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	50,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	100,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	100,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	100,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	100,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	30,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	50,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	100,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	25,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	15,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	100,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	97.7640	200,000	Inter-dealer Trade	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	100,000	Customer bought	W	L
06/13/2009 - 01:30 PM	06/27/2009	98.2640 4.18	35,000	Customer bought	W	L

<http://emma.msrb.org/SecurityView/SecurityDetails/Trades.aspx?cusip=649870LB6> (Feb 14, 2012)



Analyzing Secondary Market Trading (2)

08/13/2009 : 01:17 PM	08/27/2009	99.0390		20,000	Inter-dealer Trade	W
08/13/2009 : 12:55 PM	08/27/2009	99.0390		25,000	Inter-dealer Trade	W
08/13/2009 : 12:55 PM	08/27/2009	100.0390	3.995	25,000	Customer bought	W
08/13/2009 : 11:14 AM	08/27/2009	99.5390		150,000	Inter-dealer Trade	W
08/13/2009 : 11:14 AM	08/27/2009	99.8390	4.015	150,000	Customer bought	W
08/13/2009 : 11:14 AM	08/27/2009	99.5390		150,000	Inter-dealer Trade	W
08/13/2009 : 09:50 AM	08/27/2009	99.0390		10,000	Inter-dealer Trade	W
08/13/2009 : 09:50 AM	08/27/2009	100.7890	3.9	10,000	Customer bought	W
08/13/2009 : 09:45 AM	08/27/2009	99.9270	4.007	25,000	Customer bought	W
08/13/2009 : 09:10 AM	08/27/2009	99.25	4.069	50,000	Customer bought	W L
08/12/2009 : 04:35 PM	08/27/2009	99	4.092	20,000	Customer bought	W
08/12/2009 : 04:34 PM	08/27/2009	98.2640	4.16	50,000	Customer bought	W
08/12/2009 : 04:08 PM	08/27/2009	100	4	25,000	Customer bought	W
08/12/2009 : 04:00 PM	08/27/2009	100.2890	3.963	10,000	Customer bought	W
08/12/2009 : 03:57 PM	08/27/2009	99.7890	4.019	30,000	Customer bought	W
08/12/2009 : 03:57 PM	08/27/2009	99.0390		30,000	Inter-dealer Trade	W
08/12/2009 : 03:18 PM	08/27/2009	98.45		250,000	Inter-dealer Trade	W B
08/12/2009 : 03:15 PM	08/27/2009	98.3750	0	250,000	Customer sold	W
08/12/2009 : 02:48 PM	08/27/2009	98.2640		20,000	Inter-dealer Trade	W L
08/12/2009 : 02:15 PM	08/27/2009	98.2640	4.16	150,000	Customer bought	W
08/12/2009 : 02:10 PM	08/27/2009	98.2640		150,000	Inter-dealer Trade	W
08/12/2009 : 01:31 PM	08/27/2009	98.2640	4.16	50,000	Customer bought	W
08/12/2009 : 01:31 PM	08/27/2009	98.2640	4.16	5,000	Customer bought	W

10/08/2009 : 11:30 AM	10/14/2009	103.98	3.5	25,000	Customer bought	
10/07/2009 : 10:10 AM	10/13/2009	102.1060		25,000	Inter-dealer Trade	
10/07/2009 : 10:10 AM	10/13/2009	103.8080	3.546	25,000	Customer bought	
09/08/2009 : 11:28 AM	09/15/2009	100	4	20,000	Customer bought	
09/02/2009 : 04:05 PM	09/08/2009	97.7580	4.207	25,000	Customer bought	
08/27/2009 : 03:49 PM	09/01/2009	99.9970	4	50,000	Customer bought	
08/27/2009 : 03:11 PM	09/01/2009	98.8720		50,000	Inter-dealer Trade	
08/27/2009 : 03:11 PM	09/01/2009	98.9970		50,000	Inter-dealer Trade	
08/26/2009 : 10:35 AM	09/02/2009	98.9110	4.1	5,000	Customer bought	W
08/26/2009 : 10:35 AM	09/02/2009	98.9110	4.1	5,000	Customer bought	W
08/26/2009 : 10:35 AM	09/02/2009	98.9110	4.1	100,000	Customer bought	W
08/26/2009 : 10:35 AM	09/02/2009	98.9110	4.1	5,000	Customer bought	W
08/26/2009 : 10:35 AM	09/02/2009	98.9110	4.1	5,000	Customer bought	W
08/26/2009 : 10:35 AM	09/02/2009	98.9110	4.1	10,000	Customer bought	W
08/25/2009 : 11:17 AM	08/27/2009	98		30,000	Inter-dealer Trade	W
08/25/2009 : 11:17 AM	08/28/2009	98.10	4.052	30,000	Customer bought	W
08/21/2009 : 03:08 PM	08/27/2009	100.5870	3.924	100,000	Customer bought	W
08/20/2009 : 01:16 PM	08/27/2009	100.1010	3.957	50,000	Customer bought	W
08/20/2009 : 10:05 AM	08/27/2009	98.3720	4.057	30,000	Customer bought	W
08/20/2009 : 09:35 AM	08/27/2009	98.9820	4.001	65,000	Customer bought	W
08/20/2009 : 09:24 AM	08/27/2009	98.3720	4.057	10,000	Customer bought	W
08/19/2009 : 02:44 PM	08/27/2009	98.1380		20,000	Inter-dealer Trade	W
08/19/2009 : 02:44 PM	08/27/2009	100	4	20,000	Customer bought	W
08/18/2009 : 03:12 PM	08/27/2009	100	4	50,000	Customer bought	W
08/18/2009 : 02:18 PM	08/27/2009	98.3720	4.057	25,000	Customer bought	W
08/18/2009 : 02:07 PM	08/27/2009	98.8880	4.01	50,000	Customer bought	W

Screen shots are for illustrative purposes only.

Primary vs. Secondary

Potential benefits to retail investors in the new issue market

- Accommodating retail order periods
- Transparency and equality of pricing
- Potentially lower transactions costs
- Market risk ONLY if bonds are sold prior to maturity
- Up-to-date disclosure
- Ability to buy local

What does retail look for?

- Reasonable certainty of order execution
- Cash flows that are intended to match expected needs
 - College
 - Retirement
 - Income
- Do it yourselfers
 - Choice whether to talk to a broker
 - Tools for research
 - Liquidity
- Coupon and redemption structures
 - Serial bonds
 - Call protection
 - Par bonds

Costly Ways to help drive demand for bonds

- Make them cheaper (offer higher interest rates)
- Offer less of them (increase pay as you go)
- Pay brokers more to sell them

Less Costly Ways to help drive demand for bonds

- Broaden investor base
 - Create new product like a taxable bond that can match or beat tax-exempt cost of borrowing
 - Reach greater number of buyers
 - Build awareness
 - ✓ Advertising
 - Drill down -- reach all market sectors
 - ✓ Institutional
 - ✓ Middle Market
 - ✓ **RETAIL**

How to Reach Retail Buyers

- Marketing process that is accommodative and can reach all investors
- Retail order periods
 - Negotiated sales only
 - Prior to institutional sales
 - Extended order periods: multiple days, open over weekend
 - Time of day is important
- Engage retail brokers
 - Need reasonable certainty that bonds will be allocated
 - Use retail order period

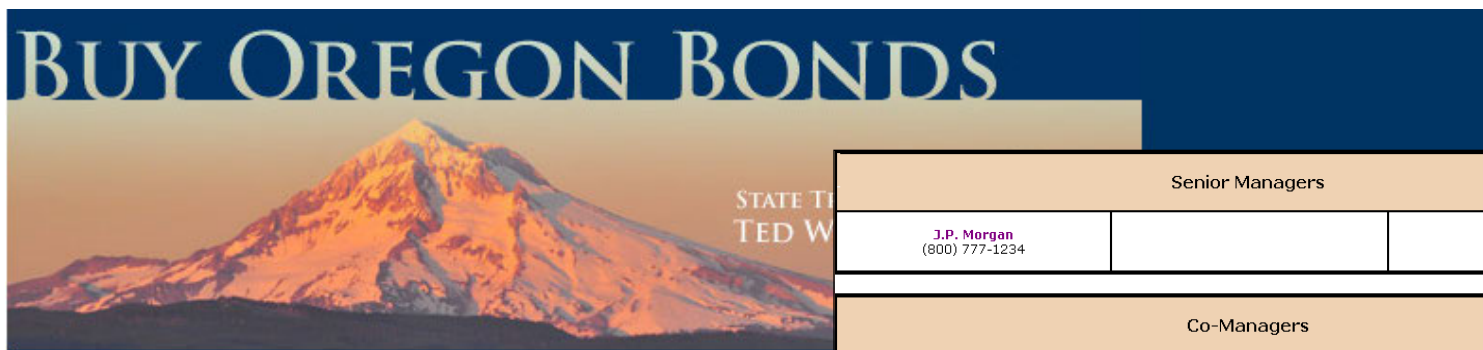
Retail has been moving to the web

Web-based tools

- Alerts
- Placing orders during bond pricing
- Investor tools
- Education and pricing transparency

Secondary market

- Attracts investors to platform
- Enhances liquidity



Brokerage Firms

Please contact your financial advisor for more information about the State. You will need to have a brokerage account to purchase the bonds. You may contact one of the following participating brokerage firms. Each firm has its own requirements for opening an account. The State does not guarantee that any one of these firms has bonds for the investor to purchase.

Senior Managers		
J.P. Morgan (800) 777-1234		
Co-Managers		
BofA Merrill Lynch (800) 637-7455	Citi (800) 547-1526	Edward Jones (888) 335-6637
Morgan Stanley Co. Incorporated (877) 937-6739		
Sales Group		
Charles Schwab & Company (866) 855-9102	DA Davidson (503) 525-3600	Fidelity Capital Market Services (800) 544-5372
Keybank Capital Markets (888) 547-2968	Loop Capital Markets	McAdam Wright & Regan, Inc. (800) 754-2841
McDonald Investments	Piper Jaffray (800) 874-0946	Raymond James & Associates, Inc.

- Links go to:
- New issue webpage
 - Company's issuer-dedicated website
 - Company's municipal bond page
 - Company homepage
 - Phone number of a rep

*hypothetical name

Screen shots are for illustrative purposes only.

Promote transparency by increasing simplicity and education

- Retail investors have option to place orders during pricing
- Anyone can view offerings

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Accounts & Trade News & Insights Research Guidance & Retirement Investment Products

Thursday, June 3, 2010

ME: Material Events CP: Call Protection SFP: Sinking Fund Protection SKY: Blue Sky States T1: Tier 1
 RI: Reopened Issues FDIC: FDIC Insured AMT: Subject to AMT RO: Risk Outlier SO: Survivor Option

PRINCETON, NJ GENERAL OBLIGATION
 Total Offerings Found: 10 As of 06/03/2010 at 11:35 a.m.

Compare two bonds Hypothetical Trade Help/Glossary

	Issue Description	Expected Coupon	Maturity Date	Rating		Underlying Rating		Expected Price	Expected Yield	Call Protected	Est. Taxable Equivalent Yield*	Expected Order Period	Settlement Date	Attributes
				Moody's	S&P	Moody's	S&P							
<input type="checkbox"/> 1	Official Statement PRINCETON BORO N J GEN IMPT BDS SER, 03.00000% Participate 02/01/20112010	3.000	02/01/2011	NR	AA+	--	AA+	101.696	0.350	Yes	0.538	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
<input type="checkbox"/> 2	Official Statement PRINCETON BORO N J GEN IMPT BDS SER, 03.00000% Participate 02/01/20142010	3.000	02/01/2014	NR	AA+	--	AA+	106.026	1.300	Yes	2.000	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
<input type="checkbox"/> 3	Official Statement PRINCETON BORO N J GEN IMPT BDS SER, 03.00000% Participate 02/01/20152010	3.000	02/01/2015	NR	AA+	--	AA+	106.007	1.650	Yes	2.538	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
<input type="checkbox"/> 4	Official Statement PRINCETON BORO N J GEN IMPT BDS SER, 03.00000% Participate 02/01/20162010	3.000	02/01/2016	NR	AA+	--	AA+	105.035	2.050	Yes	3.154	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
<input type="checkbox"/> 5	Official Statement PRINCETON BORO N J GEN IMPT BDS SER, 04.00000% Participate 02/01/20172010	4.000	02/01/2017	NR	AA+	--	AA+	110.413	2.300	Yes	3.538	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
<input type="checkbox"/> 6	Official Statement PRINCETON BORO N J GEN IMPT BDS SER, 04.00000% Participate 02/01/20182010	4.000	02/01/2018	NR	AA+	--	AA+	110.007	2.550	Yes	3.923	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP

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