

## **Bonds and Brokers: Put Money in Your Pocket**

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When buying bonds direct, the broker makes a difference. The problem is that the client rarely has a chance to know this, because fees are almost always embedded in the bond price and are not transparent. The client can't tell what she is really paying.

But in mid December, a fortuitous event happened to me that provided information normally not transparent to those who trade their own bonds. This lucky happenstance should save me, and hopefully you, thousands of dollars in the future.

This is what happened. While in the process of trading bonds at Ameritrade and E-trade simultaneously, I noticed that each carried one identical bond. This is unusual, because different brokers often offer dissimilar bond inventories.

Brokerage House	Ameritrade	E-Trade
Bond	Houston Tex Hotel Occupancy TA Hotel Occupancy & S #44237NCJ9	Houston Tex Hotel Occupancy TA Hotel Occupancy & S #44237NCJ9
Price per \$100.00 bond	\$102.612	\$102.101
Commission	0	\$10.00
Yield to Maturity	1.667	2.113
Cost to me per \$5,000 bond	5,216.16	\$5,200.61
<b>Dollars to client rather than broker</b>		<b>+ \$15.55</b>

Each broker was offering Houston Texas Hotel Occupancy bonds.\* The CUSIPs or identification numbers were identical (#44237NCJ9) so they had to be the same bonds. In spite of this, if I bought the bond at Ameritrade, it would cost me \$15.55 more than if I purchased it at E-trade. By trading the bond at E-trade, I put \$15.55 in my pocket.

The reason is that the price per bond at Ameritrade (\$102.612) was 0.5110 more per the bond at E-Trade (\$102.101). This difference meant that the Ameritrade bond was more expensive, even though they did not charge a commission and E-trade did (\$10.00). Ameritrade pocketed the \$15.55 difference.

Fifteen dollars and change doesn't sound like much. Nevertheless, if you're purchasing a \$50,000 bond,

the sum out of pocket is \$155.55 ( $\$15.55 \times 10$ ). Further, using these numbers, if someone were to buy a \$2 million bond portfolio at Ameritrade instead of E-trade, the increased cost to the client could be \$6,222. This money goes directly into the brokers' pocket.

These small interventions can make a big difference in your portfolio results over time. You don't have to do anything fancier than pay attention to the details.\*\* It's easier than sweat labor and earns the same result: money in your pocket.

\*A municipal bond on the secondary market (12/18/08)

\*\*An excellent book on this subject is *Winning Bond Strategy* by Larry E. Swedroe and Joseph H. Hempen (St. Martin's Press: NYC, NY, 2006)