



Understanding Price Evaluations for Municipal Securities

As an informed investor, it is important to understand the methodologies and distinctions for how the value of a security is determined. A **price evaluation** reflects one estimate of the value of a security at the time that valuation is made. It is not necessarily the price an investor would receive if that security were bought or sold in the market.

How a security is valued depends, in part, on the type of security. The value of a share of an **equity security** generally is determined by the share's price at the close of regular trading on the exchange for the prior trading day. The value of a **fixed income security**—which is not traded on an exchange, but typically is traded in the over-the-counter market—generally is determined by price evaluations.

For some fixed income securities, like **Treasuries and Agencies**, there may be hundreds or thousands of trades of an instrument to determine an evaluated price. Many **corporate bonds** also have a significant amount of trading on a daily basis which greatly influences the evaluated price. In contrast, the vast majority of **municipal bonds** do not trade on a daily basis, so, unlike equity securities, Treasuries or corporate bonds, the evaluated price for municipal bonds generally must be derived from comparisons other than prior sales of the same security.

Arriving at a Price Evaluation

Only 1.4% of the roughly one million municipal securities outstanding typically trade on an average trading day, and

those that do trade are typically traded within the initial 30-day period of the security's issuance date. For municipal securities that have a limited trade history, other municipal securities that have similar characteristics and have traded recently may be used to provide a basis for developing an evaluated price. Characteristics used to identify comparable or similar municipal securities for price evaluations may include:

- State in which the security was issued;
- Source of repayment (e.g., general fund revenues, user fees, sales taxes, etc.);
- Sector (e.g., airports, school districts, water and sewer, etc.);
- Coupon rate;
- Maturity date;
- Credit rating;
- Tax status; and/or
- Redemption or call features.

Price evaluations may also incorporate complex algorithms and other computerized models, as well as utilize individuals' expert judgment. Evaluations may be adjusted to consider overall market activity, developing financial stress situations, spreads as compared to various yield curves, and new issue

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pricing. Therefore, the evaluated price for the vast majority of municipal bonds is heavily dependent on trading in similar securities, as well as algorithms and other computerized models, compared with equities, where the price of a stock is almost always reflected in the previous trading day's closing price on a stock exchange.

Price-Evaluated Prices vs. Market-Determined Prices

The price evaluation provided to an investor for a bond may differ from the price that could be obtained if the bond were actually bought or sold in the market. The price obtained in the market depends significantly on current market conditions, the type of security, the trading frequency of the security, and the amount of bonds available for sale in the market.

Periods of market volatility present additional considerations that should be taken into account to understand how price evaluations are determined, as volatility can exacerbate the differences between evaluated prices and market-determined prices. Because most price evaluations for municipal bonds are determined at the end of a trading day, an evaluated price is likely to have been determined based on the sale activity for the previous trading day and so may not reflect any changes in market conditions that occur on the day an investor is looking to buy or sell a bond. The difference between the evaluated price and the price a client may realize when trying to sell a bond can be wider during times of market volatility because dealers may be less likely to bid on bonds from other dealers' clients, thus limiting the number of bids for any bond.

Municipal security price evaluations should be important to investors because, once determined, they are in most cases provided to an investor's dealer by one or more independent third-party vendors. These price evaluations are typically included in an investor's monthly or quarterly account statements or online on a daily basis. It is important to note that the evaluated price of all bonds in a portfolio determine the value of the portfolio on an investor's statements.

This cumulative value also will determine the fee an investor pays in a fee-based account. For municipal bond mutual funds, the value of a share of a mutual fund is determined by the mutual fund's net asset value (NAV). The NAV is based on the closing evaluated prices of the securities in the mutual fund's portfolio, less any liabilities, divided by the number of shares outstanding.

Investors are encouraged to monitor where their bond holdings are trading in the marketplace and the prices of these transactions, as well as the evaluated prices for their holdings. This is especially important if they are considering buying or selling a municipal bond. Investors can access the [Electronic Municipal Market Access \(EMMA®\)](#) website where almost all trades executed in the municipal market are displayed for free to investors and the public. They can also sign up for a free [MyEmma®](#) account to create and manage alerts to stay up to date with trading activity and new disclosure documents about bonds in their portfolios.

Investors are encouraged to review with their financial professional the evaluated price of any municipal security that appears to be materially different than

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recent trading activity.¹ The EMMA website offers a [free tool for comparing municipal securities](#). By entering the unique nine-digit identifier (CUSIP) of any municipal security, an investor can use this tool to easily compare trade prices of municipal securities with similar characteristics including maturity date, interest rate, and other features.

¹ There may be some rare cases when, an investor may not receive a price evaluation for the municipal security. For example, price evaluations for municipal securities may prove difficult to assess when: securities are rarely traded; the issuer of the securities is in financial distress; the current audited issuer financial statements are unavailable; an issuer reports negative material events; or recently published news affects the market.



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