Muni Bond DIFM Ownership is Growing

By Patrick Luby, www.IncomeInvestorPerspectives.com

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Muni Bonds:

Ownership

Liquidity

DIY

DIFM

inside

Do It Yourself versus Do It For Me

Rates are low and the Fed is on hold; municipal finances are stressed and bond market liquidity is down.

While there would seem to be lots of reasons for investors to be avoiding municipal bonds, individual investors were actually net buyers of municipal bonds last year—but not through the traditional means of adding individual bonds to their portfolios.

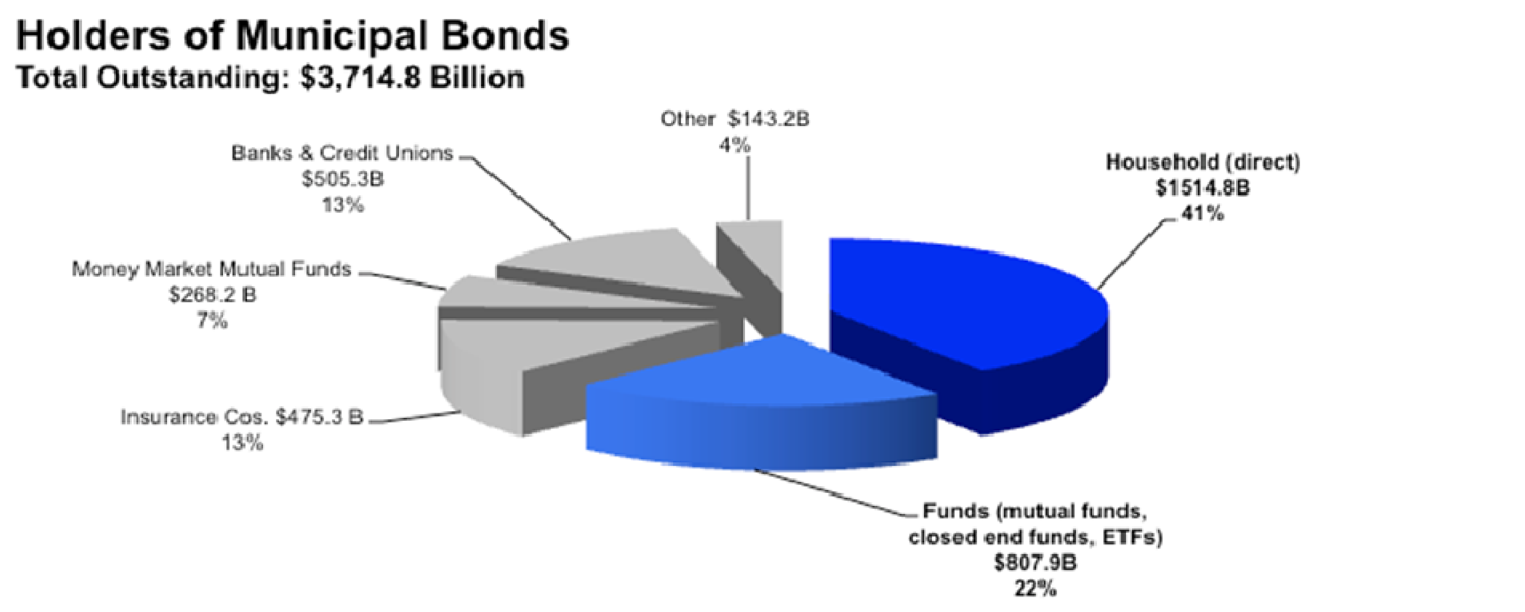
Last year, according to data from the Federal Reserve, fewer individual investors were opting for the DIY ("Do It Yourself") model of managing individual bonds on their own, and there was growth in the use of professionally managed ("Do It For Me," or DIFM) mutual funds and ETFs. As shown in the chart on the following page, the municipal bond market is dominated by demand from individual investors. However, while the Fed data show that direct individual investor ownership of municipal bonds declined by over $25 billion last year, indirect ownership through muni bond mutual funds and ETFs grew significantly.

ABOUT PATRICK LUBY

Patrick Luby is the author of www.IncomeInvestorPerspectives.com and has decades of experience in helping advisors and investors understand the municipal bond market.

Holders of Municipal Bonds

Total Outstanding: $3,714.8 Billion



As of December 31, 2015. Source: Federal Reserve System, *Flow of Funds*, March 10, 2016.

Inflows Into Mutual Funds and ETFs Continue into 2016

The positive flows into mutual funds and ETFs are continuing this year. Through March 9, muni bond mutual funds have attracted $10.7 billion in new assets (according to the Investment Company Institute) and muni ETFs have added almost $1.5 billion (according to FactSet data).

	2014	2015	Change ($)	Change (%)
Total Outstanding	$3,652.4B	$3,714.8B	$62.4B	+2%
Households (Direct)	$1,540.4B	$1,514.8B	-$25.6B	-2%
Mutual Funds	$657.7B	$705.4B	$47.7B	7%
ETFs	$14.6B	$18.5B	$3.9B	27%

Part of what may be driving the shift away from DIY into DIFM is the continuing decline in secondary market liquidity. Since it peaked in 2006, broker/dealer support of the municipal bond market has declined by over 72%, while the commitment to the equity market (which includes ETFs) was down only 11%. (Click here to read more about secondary market liquidity.) The decline in liquidity is not a surprise to most longtime investors and market participants, many of whom have experienced wider bid/asked spreads and greater difficulty when trying to sell out-of-favor bonds. By using mutual funds and ETFs, however, investors are able to access liquidity through a different and more predictable process. The positive flows into funds and ETFs suggest that many investors are looking beyond current headlines to finds ways that they can comfortably put their municipal bond money to work.

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