

June 27, 2003

## Putting Sticker Prices on Corporate Bonds

**F**or companies that need cash, it is the best of times — so long as they are willing to promise to pay it back. Corporate bonds are popular with investors, and thanks to a weak economy and a friendly Federal Reserve, interest rates are very low.

[General Motors](#) yesterday issued the largest set of bonds ever by an American company — \$17.5 billion — paying lower rates and raising more money than planned. Most of the money will end up in G.M.'s sadly underfunded pension plans. [Page C5.]

The attraction of bonds for corporate issuers now is twofold: First, rates are low. Second, investors are eager. Convertibles, which combine aspects of both stocks and bonds, are also selling well. The \$4 billion convertible bond included in the G.M. package assures that this will be the biggest quarter ever for convertibles.

But it is a different story on the stock side of the business. Equity issues — including initial public offerings and secondary offerings by companies — have raised less than \$26 billion this year, the slowest pace since 1991. That may reflect a lack of supply, as companies hope they can charge higher prices later. But a lot of it is a lack of demand. Many investors, it would appear, noticed after the bubble burst that stocks have no guarantee of repayment.

As retail investors have turned to bonds, however, they have noticed that the bond market is nothing like the stock market when it comes to price transparency. You want to buy General Motors stock? Any broker can tell you the current quote, and yesterday afternoon the bid and asked prices were just 1 cent apart.

But the bond market is a dealer market, one in which just finding out where a bond is trading can be difficult. Yesterday, reports Tom Burnett, the research director for Wall Street Access, a brokerage firm, one dealer was offering a G.M. bond maturing in 2028 at 86.75 cents per dollar of face value, while another was asking 90 cents. The range can be much greater for junk bonds. A [Charter Communications](#) issue this week was offered by one dealer at 52.75 cents, and by another at 69.5 cents.

For a small institution, even finding all the prices available can be a great strain. For an individual, there is a fair chance that the price he or she receives will be far worse than the best available.

The Securities and Exchange Commission has tried to help. A few years ago, it forced the industry to adopt a system that reports sales prices — but not quotes — on many bonds within 75 minutes of the trade being made. But those reports are not easy for many investors to find, and lots of bonds are exempted. Why the exemptions? The brokerage industry says that letting investors see what the broker paid for a bond would make it too hard for the dealer to make a profit. Opaque markets always benefit insiders, and it is no coincidence that bond trading is one of the few remaining dependable sources of profits for Wall Street.

The New York Stock Exchange was once a major force in the corporate bond business, but in recent years it has faded in importance. While some new bonds are listed on the Big Board, most are not. John M. Devine, chief financial officer of G.M., seemed surprised when I asked him whether it was listing the new bonds on the exchange. The convertible issue will be listed, but the others will not. That is a pity for individual investors. The exchange has the only widely available system that offers quotes on bonds.

The Big Board is pushing the S.E.C. for the right to trade all registered corporate bonds, and Catherine R. Kinney, the exchange's co-chief operating officer, said yesterday she hoped the agency would approve that this year.

Such a plan could cut into the profits of bond dealers. But individual investors deserve better bond market information.