BUILDING WEALTH IN CHANGING TIMES

The Solari Report

SEPTEMBER 11, 2014

Municipal Market Overview

with Joe Mysak

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C. AUSTIN FITTS: Ladies and Gentlemen, it is my privilege to welcome to The Solari Report a man who needs no introduction. He truly is the definitive voice on municipal bonds in the reporting world. He is the editor of the Municipal Market for Bloomberg, Joe Mysak.

I first knew him when he was at *The Bond Buyer*. Now he has emerged at the top, and he is also the author of several great books in the municipal market which I recommend to you.

We had him on The Solari Report to talk about *Encyclopedia of Municipal Bonds* which, to me, really is the definitive work if you're trying to learn the municipal bond market. And then if you're a government official or a public official, it will stop you from making many of the mistakes that get made. *The Handbook of Municipal Bond Issuers* – I recommend his work to you.

He reports at Bloomberg. He does a weekly video and writes many great articles and publishes their municipal briefs, and he also tweets. He has got a lot of great content, but one of my favorite things is he put out a *Stat Book*. It's the inspiration for why I invited Joe to join us today for the *Municipal Market First Half 2014 Stat Book*. It's very rich with interesting things going on. The municipal bond market is very interesting for both investors and people just interested in knowing what's going on in the world.

So, Joe, welcome to The Solari Report, and tell us about your *Stat Book*.

JOE MYSAK: Well, we take Bloomberg data which is proprietary data, mainly Bloomberg data, and we put it together on this very brief format – as you imagine from 'The Bloomberg Brief' title. We stick to the facts but we have a lot of interesting material on it.

One of my favorites is the 'Who's the number one underwriter in each of the states?' Lead the tables, as you might expect the mutual fund rankings, the fall statistics – all sorts of interesting material – and yet we manage to keep it under 30 pages. It has all sorts of graphics and charts and things. It's just a nice quarterly thing.

The half is usually bigger than the first quarter, and of course the annual that we put together at the year's end is a little bit fatter – but not too much. There is a review section about what happened during the period and all sorts of relative material for the readers out there.

C. AUSTIN FITTS: When I was in college I got straight A's in Shakespeare, and that was because of classic comic books. To me, this is the ultimate financial comic book of the municipal market because it's like reading a great comic book. It's very well laid out.

JOE MYSAK: Well, thanks.

C. AUSTIN FITTS: This year has been a surprise. The municipal market has performed very well. There were many of us who consider in the long-term bond market that a long-term bull is over. We wondered if interest rates were going to rise.

Some were smarter. They said "time to cash out and move from municipalities into equity markets," but the market really had a good performance this year, so why don't you tell us a little bit about it?

JOE MYSAK: So far this year muni's have returned 8.1%. If you compare that to investment great corporates, they are a little bit under 7%. Treasury is a little under 4%. Of course the stock market has done extraordinarily well. The S&P 500 is about almost 10%. A lot of things, on the other hand, are in the negative numbers. Negative 3.5% I think.

Muni's have done very well. On the other hand, we haven't really seen rates go up as people had expected. The experts say, "Chances are rates aren't going to be rising until next year anyway." I was in a conference last week in Salt Lake City, and Ward McCarthy was one of the speakers. He opined that he didn't think this fed would really move until the middle of next year. His thinking there was that this is something the Fed has in its quiver, and if they go too quickly and decide rates are moving up and the economy takes a real hit, there is not a lot of extra they can do. They want to make sure that the recovery in the economy is really humming along, which made some sense to me.

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C. Austin Fitts: Also the pressure on the Europeans to continue to do their equivalent of quantitative easing is very heavy. It has surprised me.

The other thing that surprised me is how well high-yield muni's have done and the capacity of the market to buy more.

I was watching your TV report on the Detroit water and sewer bonds, and I thought, "I'm amazed!"

Joe Mysak: They were able to get that deal done. I have a theory on this, though. There was an explosion during the 90's – that's when it began – of asset managers. There are more people now either managing money for funds or separately managing accounts. You have a tremendous group of people who are managing muni's and chasing after them which means there is an enormous appetite for bonds, including "high yield" bonds. Then we could get into that at some point.

In the old days, high yield bonds were for the Kearney, Nebraska museum on the roadway there. They were unsecured stuff, and maybe you were getting 8-9%. Nowadays high yield is much less adventurous, because usually there is some type of municipal guarantee involved.

The Detroit water & sewer got done. Almost everything in this market is a blog because there is such demand for it. Of course this year volume is down.

C. AUSTIN FITTS: The new issuance is pretty low.

JOE MYSAK: Yes. Issuance is low. There aren't a lot of bonds that you can choose from. Not only is issuance low, but you also had a big year for redemptions and maturity.

The whole business about issuance being low, though, I know there are some people who get overly nervous about that, but this is the thing that you would expect municipal governments to do as they rebuild their balance sheets. They don't borrow as much.

C. AUSTIN FITTS: There are a lot of trends going on in the municipal market, and I wanted to check in with you on them.

My first question is: Did the new bank rule changing the definition of municipal assets to liquid assets go into effect today?

JOE MYSAK: Yes. They approved that I believe. What does that mean for the market? I don't know. Short-term, right up front here, I wouldn't imagine a great deal. That's only because I'm not one of those people who tend to get panicky.

Long-term it might drive costs up a little bit because banks have been a big buyer of muni's for the last couple of years. Without them being able to say, "Hey, we have this very safe liquid asset on our books, ie municipal bonds, getting that title makes them a little less alluring to banks.

C. AUSTIN FITTS: Well all across the fixed income markets, ever since the reform legislation we're seeing reduction in capacity in the fixed income markets. The ability and willingness to maintain liquidity is always a question. That's happening on one hand. When I saw this, I thought, "Okay, if they change the definition for banks, how is that combination going to hit liquidity?"

At the same time I'm figuring ETFs are making a difference as well. How is the ETF moving into the municipal market working?

JOE MYSAK: ETFs are there, but there is still only a handful of them. That's something that's developing at this point.

C. AUSTIN FITTS: So it's still really a mutual fund world?

JOE MYSAK: Yes. I would say so. Will we see more ETFs? Undoubtedly as we go along here.

C. AUSTIN FITTS: Well, if the market really needs liquidity, it's going to be the mutual funds. What are the mutual funds going to do if a lot of money shifts out? To me, with interest rates I don't see it happening.

JOE MYSAK: I'm working on an interesting piece for the fall. It's called 'The Muni Meltdown that Wasn't.'

I try to look back at 2009, especially 2010. I go over a lot of the statements and press coverage and prognostications about the municipal markets imminent demise. I've been taking a look at those and saying, "What happened here?" A) Why didn't the muni market melt down? B) Why were these people out there taken so seriously?

I will say that had Twitter been as popular in 2010 as it is today, a lot of the assertions made about the municipal market would have been blown out of the water because they were being made by people 'unfamiliar' rather than people 'familiar'.

C. AUSTIN FITTS: Right, and I'll name names.

JOE MYSAK: On Twitter today, that would be blown apart. People would just say, "What are you talking about here? You don't know what you're talking about." The whole idea of a muni market-wide meltdown was, if you think about it, a sucker's bet.

C. AUSTIN FITTS: Right. I'll never forget – because I'll name names – when Meredith Whitney came out and said that this was going to happen. I thought, "Now there's a woman who doesn't understand municipal credits and how they really work."

JOE MYSAK: Right. Exactly. I'm still trying to put together a narrative about this, but if you take a look at a Bloomberg terminal and you do a muni ticker look-up you could go through and put in a name and you could get 12 pages of one name of Smith County or whatever, and it just keeps churning out. You're looking at it and you say, "Hey, who are all these guys?"

It seems to me that a lot of people somehow thought that municipalities sold debt, like a city sold bonds and that was it – it was just one kind of bond. Whereas in fact, as we know cities sell bonds – maybe four, five, or six different kinds of varieties. Some of GOs and some are revenue bonds. There are school districts involved. There are state intercepts involved. There are all these various kinds of credits, and to just sit there and say, "Well, everything is going to go," in retrospect seems insane, and yet this was a common refrain in the market.

But that's for the fall. I know you want to have me back then.

C. AUSTIN FITTS: Absolutely. As you know, it's funny because if you look at the players in the municipal market, in my experience you have a lot of people with very deep knowledge of how state and local governance run and work, and are very big mutual fund players who have very big positions that are not about to lose their head.

There is a lot of depth to the municipal market and a lot of experience. I'll never forget one of the guys at First Boston. Remember when the stock market melted down in the late 80's?

JOE MYSAK: Oh, sure.

C. AUSTIN FITTS: The guy running the First Boston desk was on the phone with the old chairman of my firm, sort of advising. At one point he called me and he said, "This is really terrifying because everybody in the high volume committees over at the exchange is under 30 and has never experienced a down market."

But the muni market isn't like that, and maybe it's changed since I've been involved, but you have a lot of people with either deep knowledge of the market or has experience within government. There is a lot of stability within the people.

If they do tweet, Joe – and I think you would know given how you tweet – you're right. They would have turned it pretty quickly.

JOE MYSAK: It was very much a media story. What you had was a few headlines in major mainstream media and you had a lot of material on blogs, including business blogs, and things would come out and they'd rattle around the market and they'd be picked up on. *Business Insider* which had just been established a year or two before and a lot of these sensationalistic headlines would link to stories on blogs. These would rattle around the market.

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This inexpert testimony would get echoed and amplified. Today you'd have Twitter, and people would attack it much more quickly. What I'm finding, too, is that in the latter half of 2010 various people who knew what they were talking about came out with a series of very serious reports and surveys and FAQs to try to reassure people. I'm not sure how many of those achieved the celebrity that some of these other things did, but it's interesting to look back at and say, "How did this happen? Why did it happen?"

Meredith Whitney on *60 Minutes* was the exclamation point at the end. This was a year-long 2010 thing, although there was that piece done in 2009 called *Dark Vision*, which I think said there was going to be a meltdown in the municipal market.

It's fascinating to me to go back, especially because I saved all this stuff – the old media guy that I am. I have clip files and things like that. I'm finally able to clear out the area.

C. AUSTIN FITTS: Remember, if you're not knowledgeable about the mortgage and municipal markets, then the fraud in the mortgage market was absolutely extraordinary. I think a lot of people couldn't discern if that level of fraud could happen in the mortgage market why couldn't all the same players do it in the municipal market. Part of it is: What is the extent of the fraud? What is the ability of the players to clean up the fraud without hurting investors?

I just think a lot of people didn't have enough roots in both markets together to discern between the two. That's why you had that silly behavior. I hate to say it. There are certain firms to go unnamed. If they could get away with the municipal market they'd probably do it.

JOE MYSAK: Yes.

C. AUSTIN FITTS: I also regularly see stories on Federal tax issues. Is there anything brewing that would in any way impact the taxation treatment of municipal bonds?

JOE MYSAK: I don't see it this year. We're going into elections.

C. AUSTIN FITTS: Election year, yes.

JOE MYSAK: I don't see it. I'd be kind of surprised to see anything next year, but there are parts of the Federal government that are very eager to get rid of a tax exempt market and take a look at the tax exemption and say, "This is nothing but a subsidy. Here's a couple of billion we could pick up."

The disruption this would cause is, of course, enormous. Some of the issuers are coming around and saying, "Let's be prepared just in case." But right now there's just not that feeling of imminent disaster. There is nothing out there that's going to get any traction. There may be some ideas where people will say, "Well, we'll get rid of the tax exemption."

Maybe a month and a half ago Ron Wyden came out and said, "The tax exemption is something that makes people think about the equity of it."

We did a piece on that in the brief. That got a little reaction because people said, “What do you mean – the equity of it?”

I said, “Mrs. Dodge lives.” How terrible it is that this handful of people get to claim tax exemption. It’s just a boondoggle for the rich – which is not right for tax exemption in a small market.

C. Austin Fitts: That’s just not true.

Joe Mysak: I don’t really see anything right now that’s going to be done, but it’s one of those things that we have to be truly vigilant about.

C. Austin Fitts: The other thing is because we do have a few – including some interesting – bankruptcies going on, my question for you is: Is there any kind of evolution in bankruptcy case law that we should know about?

Joe Mysak: Interesting. It’s funny. Those people back in 2010 who were so eager to talk about how municipalities when given the choice would repudiate their debt. Some of the criticism was not entirely misplaced.

C. Austin Fitts: Right.

Joe Mysak: The idea there and the logic there was that politicians will choose to default on debt service or try to repudiate their debt so that they could not hurt the public pensioners and various other parties. That wasn’t entirely misplaced.

What was misplaced is how far most municipalities will go to avoid in any way damaging their access to the credit markets, which they need continuous access to.

If you look back in 1995, even the good Bergers in Orange County after the county declared bankruptcy in 1994, in 1995 there was a couple of week period where they were talking about reserving the right to repudiate a bond issue that was sold in 1994 or 1993 to top up that investment fund that they had out there. People were agog about that.

They said, "Wait a minute. This is Orange County talking about repudiation?"

But, of course, it's only when the county was in bankruptcy that they even mentioned it. Needless to say they shelved that idea very quickly.

C. Austin Fitts: Right.

Joe Mysak: But what we're seeing now is, for example, you have the biggest bankruptcy so far in Detroit. They're trying to put a haircut on GO bondholders, something which is absolutely astounding to people in the market now. But like you mentioned, these are exceptions. These are very exceptional times. Not everybody is out there saying, "Yes, we have to give the GO bondholders a haircut."

Detroit is such an extraordinary case.

C. Austin Fitts: Right. You're talking about a city where you lose half the population.

Joe Mysak: Right. There are so many things about Detroit that are exceptional. People take exceptions and they try to make them national. Just like I say, are there precedents that are going to come out of Detroit? I don't think so. Lessons? Yes. Lessons by the barrelful. But precedents? Probably not.

As I mentioned in last week's video, I don't know if you know but Paul Isaac told me years ago, "What you're telling me, Joe, is the market is particular and specific to a remarkable degree."

C. Austin Fitts: Yes, it is.

Joe Mysak: That's stayed in my mind ever since. Detroit is a very particular case. It's amazing. Back in 2010 Standard & Poor's noted that Detroit is one of those places that is undergoing a tremendous amount of stress. And yet back then the state of Michigan had always said, "We can appoint emergency financial managers, but we don't want to see any of our municipalities enter Chapter 9." They especially said that about Detroit.

It's funny that Standard & Poor's in 2010 printed a report saying exactly that. "Michigan has assured us on many an occasion." It might have been interesting back then if one of these gloomsters had said something and said, "Guess what? There may come a time when the state of Michigan decides that Detroit is going to go over the side." That's the biggest case we have to worry about now, and of course the trial was ongoing.

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C. AUSTIN FITTS: When I look at the list of municipal bankruptcies as well as the technical defaults, one of the few stories I see is the utility story. You've got a couple of municipal utilities, and if you look worldwide – or just through the G-7 nations – there is no doubt about it that the changes in the marketplace and the changes in technology, including oil and gas technology, is putting tremendous pressure on the economics of utilities.

I think over the last two years we've had almost a 50% wipeout of market capitalizations in Europe. It doesn't surprise me that municipal utilities are under pressure as well.

JOE MYSAK: Yes. What are we going to do with Puerto Rico's electric utility?

C. AUSTIN FITTS: It's funny because I've never delved into the Puerto Rico story, but I think at one point you said that the 2014 municipal story of the year was going to be Puerto Rico. Every time I look at how much they've issued – and they just did an issue in the beginning of the year, too. It was the largest junk deal at $3.5 million.

I don't want you to spend a lot of time on Puerto Rico, but what in the world is going on in Puerto Rico?

JOE MYSAK: The governor suggested legislation and the island passed it, setting up a sort-of Chapter 9 for various agencies on the island. According to people familiar, this was supposed to enhance the commonwealth's general obligations. But people actually said, "Wait a minute. This means that you have several billion dollars in various other agencies that might be restructured as a result of this."

It is sort of crammed down legislation, if you will. It's being debated right now. In fact, there is a court case that the mutual funds raised against the law saying that this is unconstitutional. The US Congress has to pass something like this, not the commonwealth of Puerto Rico.

There's a big argument over that, but we could – according to what we've been carrying – have the Puerto Rico Power Authority which is one of the largest utilities out there.

C. AUSTIN FITTS: What's the total volume outstanding that could be subject to all of this?

JOE MYSAK: I think it's something like 7 billion or 8 billion – something like that – in bonds, which is a fraction. I think the total Puerto Rico amount of debt – GOs and revenues and everything else – is something like $72 billion.

Of course, that wasn't brought up back in 2010. Nobody mentioned, "Hey, keep your eye on Detroit. Keep your eye on Puerto Rico." No. It was one of those issuers. It's in the muni market, but it's not of it.

Consider Puerto Rico as a municipal entity – a governmental issuer. It's like, "Oh, yes. There is Puerto Rico. They are triple tax exempt everywhere." Right. That's it.

A lot of mutual funds buy them.

C. AUSTIN FITTS: It is the triple tax exemption that was the attraction.

JOE MYSAK: Right. So Puerto Rico was one of those things that – I don't want to say it 'escaped' people's attention – but people aren't as focused on it as they might have been. When Moody's came out with their State Debt Medians I always used to write snide comments about, "Well, here are the State Debt Medians which usually turned out the top issuer had $5,000 per capita debt. By the way, Puerto Rico has $15,000 per capita tax-supported debt," which seemed insane. But people didn't really take up on that.

C. AUSTIN FITTS: The total mutual funds are about half a trillion. What is the size of the total outstanding paper in the muni market? Do you know?

JOE MYSAK: Of the muni market?

C. AUSTIN FITTS: Yes.

JOE MYSAK: $3.7 trillion.

C. AUSTIN FITTS: So it's about $4 trillion.

JOE MYSAK: If you want to stack that up against other bond markets, treasuries are about $12 trillion, corporates are about $10 trillion, and mortgages are about $9 trillion – or they were.

C. AUSTIN FITTS: My one skepticism about that is I think the accounting in the muni world is better than some of those others. I think the $3.7 is probably a more legitimate number.

JOE MYSAK: But it's the fourth largest of the bond markets it seems. Gosh, it's just a fun thing to write about.

C. AUSTIN FITTS: Let me jump onto what I see as one of the critical issues and one that I've seen a lot of mud slinging and not a lot of hard coverage. That is the issue of municipal pension fund obligations.

We just had the SEC require one state – I think it was Kansas – to redo their disclosure for pension liabilities.

JOE MYSAK: Right.

C. AUSTIN FITTS: I think the issue is not just what the accrued obligations and the pension funds and what the impact on the budget is, but what the healthcare liabilities are and what they're going to cost to fund. Have you taken any look at that?

JOE MYSAK: By healthcare do you mean the OPEB issue?

C. AUSTIN FITTS: Is that what it's called? OPEB?

JOE MYSAK: Other Post-Employment Benefits?

C. AUSTIN FITTS: Yes.

JOE MYSAK: You know, it's funny you bring this up. This is one of those things that I remember Meredith Whitney in her book *Fate of the States* said that nobody is talking about this now. I said, "Nobody is talking about it? My heavens! They can't shut up about it!"

Really, if people wanted to in 2009-2010, especially at the end of 2009 you had Joshua Rauh came out and said, "What you should really do is discount the holdings to a treasury rate of either zero percent or three percent instead of your return assumptions of eight percent." It went back and forth.

I know that Bloomberg certainly carries an annual look at state and local pensions and links how they're doing. This is one of those things that I would say that since late 2009 has been front and center, especially because of the losses incurred by the pension funds.

It's one of those things that is on the front burner. I would say it is the most important issue that states and municipalities are looking at right now. But that being said, it's not something to panic about. I mean, the municipality today or the National Association of State Retirement administrators said, "Hey, these investment assumptions that we use aren't pulled out of thin air. The 30-year rate was something like nine percent." So most of them were at eight, and some of them were in the seven's. They weren't just making it up; they actually had gotten those over the course of 20-30 years.

Another thing is that so much of the 'panic coverage' made it seem as though a state had to come up with all this money immediately when, in fact, it is over the course of 30, 40, or 50 years. It's like the railroad tracks. When you look at them you think they are going to come together out a certain distance but they never do.

What have the municipal governments and state governments been doing over the last five years? Well, they have been trying to cut back on what they owe. It's very difficult to rework actual underlying pensions, but as you mentioned, you can sit down and negotiate with your unions and with your public employee retirees over healthcare and the various other benefits they get, as well as cost of living adjustments and things like that.

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I want to say that 40 out of the 50 states maybe have already tinkered with their plans. Of course, you know when you're a big state and you make a little move it has a big impact. So, they've been working on that.

Now there are examples – Illinois and New Jersey – that are more troubling, but you kind of have to look at it and say, "This is not sustainable. What's going to happen? Is the legislature going to get off the dime and pass some serious reform? What's going to occur there?"

I'm not as gloomy on the pension fund front as I might have been three or four years ago.

C. Austin Fitts: It's interesting. I'm not gloomy on the state and local pension fund because I think they are in relatively good shape. If you look at the studies I've seen, they've got the hole and the question mark on healthcare. Of course, if you are a state or local group and you try to deal with that you get entwined in the extraordinary intensity and complexity of the rules and regulations and the Federal involvement. It makes it much more challenging.

But I have to tell you this. I live in a town where the City Council meets once a month. You know what they do at these City Council meetings?

JOE MYSAK: What?

C. AUSTIN FITTS: They read the bills and then they write the checks. We have no staff. We have no pension fund because we have no former staff – because we have no current staff. It's all done on a volunteer basis.

Our fire department is volunteer, and I think our current CDs and reserves are enough if we stop collecting taxes it could take us to ten or fifteen years.

I have three properties here, Joe, and my combined property taxes for all three properties are less than $500 a year.

When you sit in a place like I live in and you read the stories of the benefits and pensions and the staff in Illinois, you just shake your head and say, "How can this be?"

JOE MYSAK: Do you remember the guy a couple of years ago – Bell, California – where they had the City Manager and he was making $500,000 a year?

C. AUSTIN FITTS: I can't fathom it. I'm sure there's a story – a logical story – but it's just stupefying. It's baffling to me how this could be the case.

But, of course, he's the guy who gets the headline, not the guy who spent his whole year running a town like I live in for $25,000 a year.

Let me also ask you this. The one thing I do think is technology changes things, and government has been relatively slow to engineer many times for logical reasons. But I do think we're going to see a reengineering of how municipalities function given all the different things that are going on.

I live in a state where marijuana is our number one cash crop in Tennessee. On a per capita basis we're right behind California. I couldn't help but notice how well Colorado is doing on its marijuana sales tax. I didn't know if you have any comment on the 'newest revenue source' for municipalities.

JOE MYSAK: I think the first one gets the lion's share.

C. AUSTIN FITTS: Touché.

JOE MYSAK: Probably many others are going to embrace that because they've seen how successful it is in Colorado. Have they already started selling in Washington?

C. AUSTIN FITTS: I don't know.

JOE MYSAK: I know they were all set and ready to go. So we'll probably see more of that.

If, for example, you take a look at Atlantic City casinos –

C. AUSTIN FITTS: I was going to ask you about Atlantic City because that's a very tough situation.

JOE MYSAK: Yes, because there was so much competition that sprang up over the course of years. I guess Atlantic City gambling was allowed there in 1978. They had a very good run for maybe twenty years. Then, all of a sudden, a lot of surrounding states starting putting in casinos and so now Atlantic City suffers.

C. AUSTIN FITTS: Right, but a lot of that core market, Joe, if you look at what's happening with the discretionary income of many of the households that were part of their core market, it's getting really hammered. You see the same thing in Las Vegas, too.

As a family that has $100 to $1,000 of discretionary income a year – or a month – has it hammered by both the squeeze in the economy, the slow inflation, and things like Obamacare. It really hits them hard.

You have all these different businesses, particularly the casinos, who are feeding from that little pot of discretionary money so they all get wiped.

The other thing I have to ask you about because it's my own true love – infrastructure. Any hope for increased interest in funding infrastructure?

JOE MYSAK: Oh, I would say there is certainly lots of talk about it. Is there going to be some big national effort? Much as I like the idea of it, I doubt it. On the national level if Congress says, "Alright, I'm going to put a bullet train here."

To get that passed, we have to put in roadways here and rebuild bridges there. You have sort-of an unwillingness. There's ability to pay, but there's unwillingness to pay at the Federal level. I think it's probably something that's still going to be tackled mainly at the local and state level with Federal government matches if they can get them. I think that's how we'll see things work.

It would be very nice if the Federal government was a little more interested in setting up big infrastructure bank or something like that to invest in the nation's fabric.

On the other hand, it's one of those things that the municipal market has always done. When people talk about it, every couple of years it gets a certain popularity. It gets some headlines about America's crumbling infrastructure.

I sat there and said, "Wait a minute. Have I been living a lie? With all the money they've supposedly raising with all their bond issues?" Of course not. That's how our roads and streets and bridges and sewers are being rebuilt and maintained.

I think it's something that the market handles in a very slow fashion.

C. Austin Fitts: Right.

Joe Mysak: That's always been the way. Every once in a while you have a little jolt where a few more things get financed in a big way, but it's just slow but steady.

"Every once in a while you have a little jolt where a few more things get financed in a big way, but it's just slow but steady."

C. Austin Fitts: On the infrastructure we're not going to do the vision thing in a big way for a while.

Well looking forward for the rest of the year, what do you think the big issues are going to be? Clearly Puerto Rico is going to be a story, but what else is before us this year?

Joe Mysak: Well, it's going to be very interesting how Detroit settles – how that whole thing concludes because we have the trial we're working through there. It's probably going to be measured recovery on the municipal front. I don't think we're going to see a big boom in defaults. I don't think we're going to see primarily because municipalities take a look at how lengthy and expensive the Chapter 9 process is. I don't think we're going to see any big increase in defaults.

C. Austin Fitts: I'll tell you what my clients and subscribers want to see, Joe. They want to see how they can sell some stock and buy 5% on a 10-12 year municipal, preferably in their state. Every time they look at the market they say, "Not close."

Now that's been great for returns because yields have been coming down. The people who bought them when yields were high are fine.

I don't know if you remember 1980 when somebody did a long bond in New York for 18%. Do you remember? Interest rates were off the charts.

Joe Mysak: I guess the top WIPs yield was 13.44%.

C. AUSTIN FITTS: I must be thinking about the corporate market, so I forget what the long tax exempt was. There was a long tax exempt market yield when they hit rates, and I remember somebody saying, "Oh my God! Are we going to be a banana republic? What is this?"

Occasionally I'll look at somebody locked in long bonds at one of those periods. So they're having a glorious time because their bond prices have just risen, risen, risen. For everybody else looking to get some yield, they keep saying, "Where is the muni market when I need it?"

All I can tell you is if the 20-year muni market should ever hit an easy 5% there's going to be a flight right into you.

JOE MYSAK: My heavens! Five percent. Think about it. I remember when it was well over 8%. It was at 10%.

C. AUSTIN FITTS: Yes, well, yields are low.

Well, Joe, it's been a real pleasure having you on The Solari Report. I wish you the best of luck. Keep me posted. When is your next piece coming? Tell us a little bit about it.

JOE MYSAK: The *Muni Meltdown* should be out in late November.

C. AUSTIN FITTS: It's going to be a book?

JOE MYSAK: It's going to be a large supplement to the brief – maybe 30,000 to 40,000 words.

C. AUSTIN FITTS: Fantastic! This is going to be good. Is it coming out before or after the election?

JOE MYSAK: Oh, it will come out after.

C. AUSTIN FITTS: Okay. Well, just give us two more seconds on how we follow you. Just walk us through what we can find at Bloomberg and how we can follow you, how we find your Twitter feed, etc.

JOE MYSAK: The Twitter feed is JoeMysak. There aren't a whole lot of us out there. That will get you there.

I often tweet a lot of material that's been in the issue. We also put out the daily briefs.

C. AUSTIN FITTS: It's very good.

JOE MYSAK: You can go to the website and look at the section where it says 'Bloomberg Briefs'. They can click on that, and that will take them to the briefs page. We put out about 18 titles now of various daily and weekly and monthly publications that people can take a look at and subscribe to or not.

And, of course, I'm on the Bloomberg Terminal. Every once in a while I'll write something that will go on the main Bloomberg website. So that's how they can follow me.

I always tell you that I'm an old media kind of guy, but Twitter remains an amazing resource of the muni trends.

C. AUSTIN FITTS: It does. It absolutely does.

Well, Joe, it's always a pleasure to talk to you. We wish you the best of luck. Keep me posted on when your next piece comes out, and we will absolutely have you back on The Solari Report.

JOE MYSAK: Catherine, thank you very much.