



August 24, 2009

## *Loop Analytical Services*

Special Commentary

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### **The Retail Market for Build America Bonds (BAB's) - Developing?**

Build America Bonds (BABs) would seem to be an excellent high net worth product. BABs are familiar to traditional buyers of tax exempt bonds. Both the names of the issuers, as well as the nature of the bond security, have been time-tested for retail investors. BABs offer the additional advantage of being useful in tax deferred retirement accounts like IRAs. Evidence of retail acceptance of BABs comes from UITs, a traditional retail product. We are not aware of any mutual funds specifically committed to BABs, but they are used in taxable mutual bond funds. A natural question arises as to how much of the BABs market is represented by direct retail purchase, like the kind that appear during retail order periods of municipal bond issues.

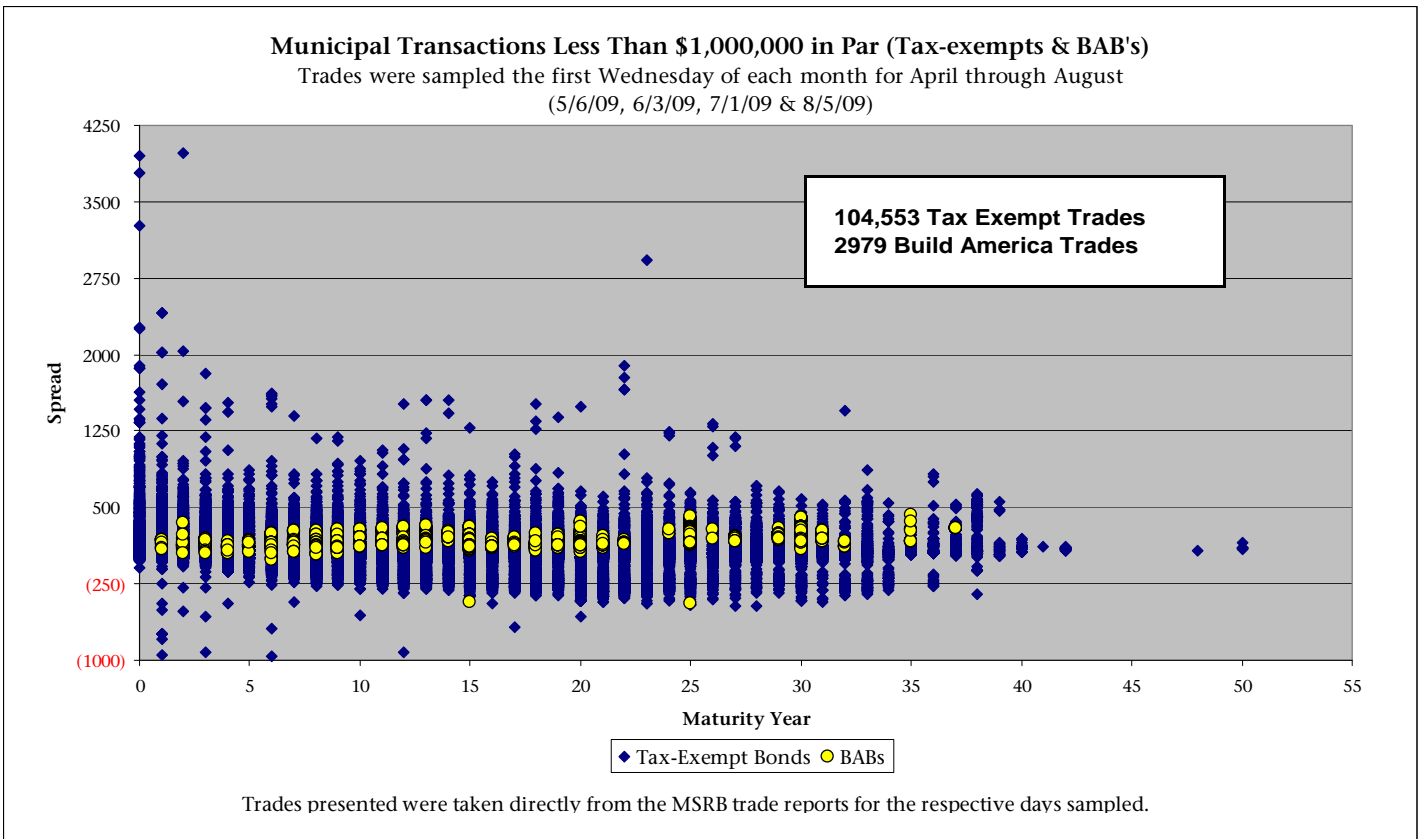
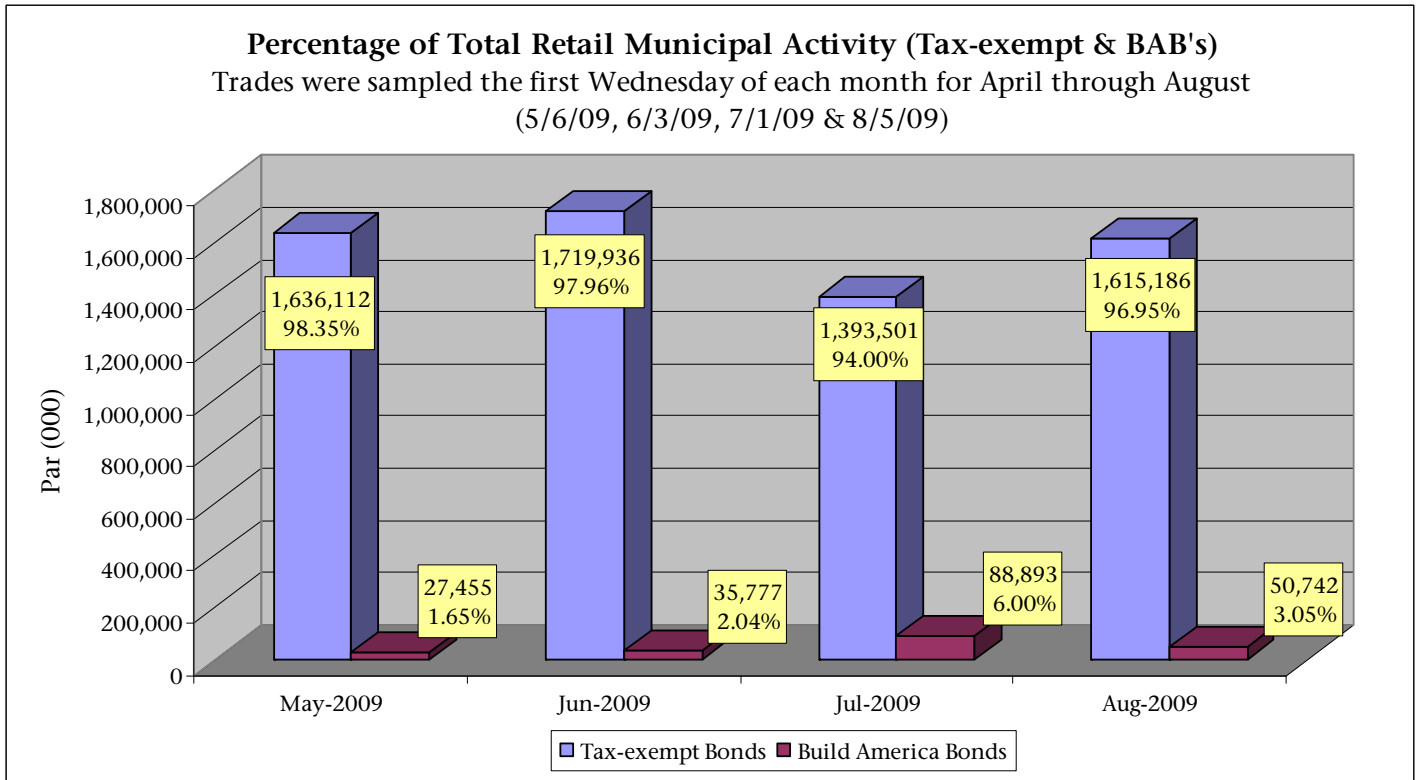
We sampled our data base of both tax exempt and BABs trades. Due to the huge volume of data, we selected four Wednesdays at approximately one month intervals. While this is not optimal, there is no reason to believe that Wednesdays are significantly different than Tuesdays or Thursdays at gauging the relative activity of retail purchases of BAB's as compared to tax exempt trades. While we intend on gathering more data for a more definitive picture, the charts below suggest that the BABs retail market is progressing slowly. From late April the percentage of trades of less than \$1 million in par value has grown marginally from less than 2% to somewhere around 3 to 6% of sample daily trading activity.

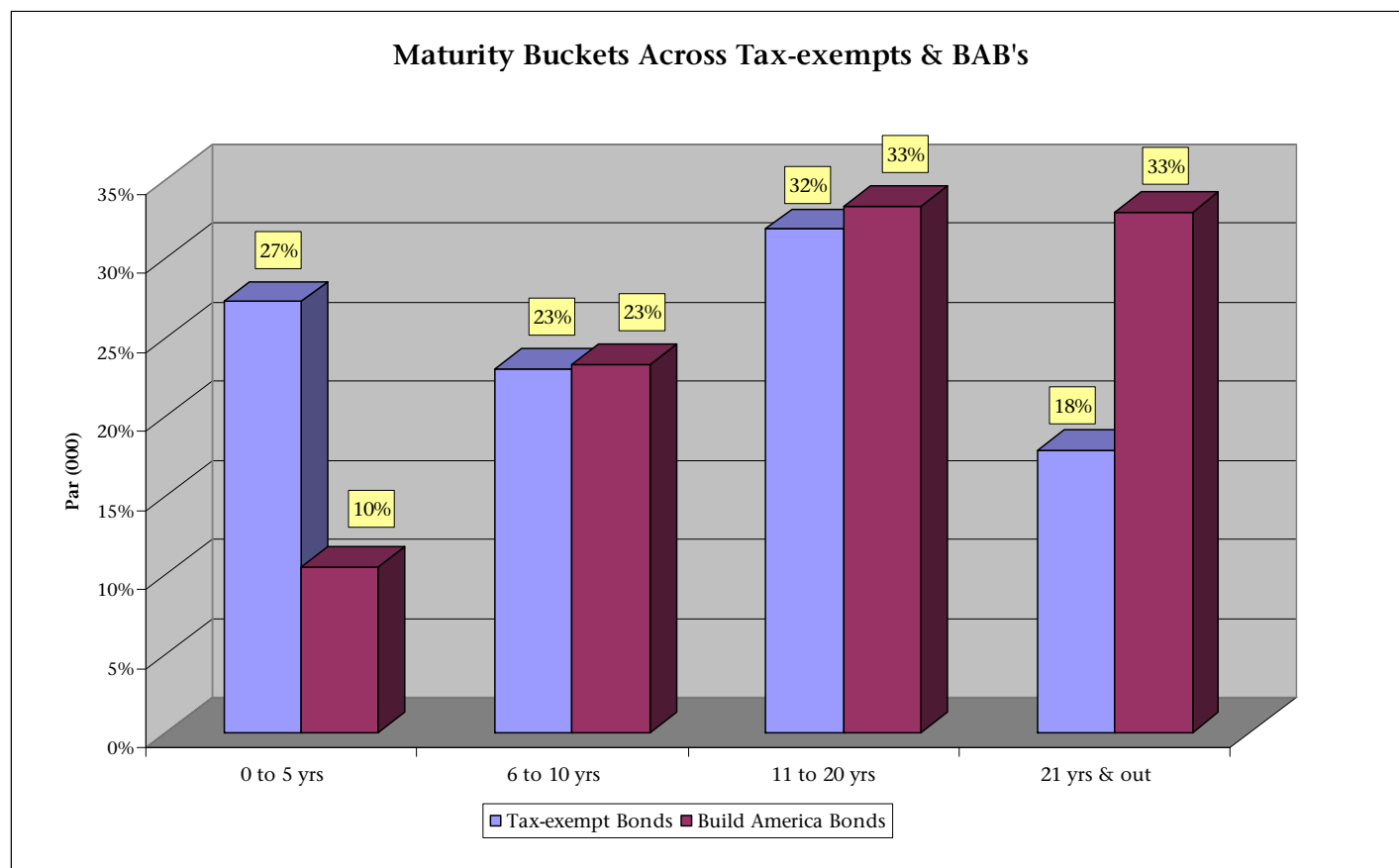
The results so far are surprising. Based on the sheer volume of demand for taxable securities, one would think that the retail market for BAB's should be large and growing. The safety of BABs relative to high grade corporate issuers is well established in the mind of the retail investor and has been reinforced by the experience of watching auto company bonds, a long time retail favorite, get hammered. The structural differences—make whole calls, pricing by spread to Treasuries, etc.—do not appear to be high hurdles to surmount. It appears that as rapidly as institutional clients have embraced BABs, retail investors have been somewhat reticent so far. Aggregate activity over the four sample days is 35 to 1 in favor of tax exempts.

One observation is that the distribution of retail activity by maturity has been fairly similar to tax exempts. This is an important factor since it suggests that, at least with respect to maturity selection, the retail investor buying BABs is the same as the retail investor who buys tax exempts.

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