

Rocky Mountain News

Mixed signals, mixed markets Bear Stearns sale, Fed actions leave Wall St. spinning

Rocky Staff And Wire

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JPMorgan Chase & Co.'s cut-rate buyout of Bear Stearns Co. drove some jittery investors to dump shares of major investment banks and left others worrying who's next.

The government offered reassurances to Wall Street on Monday that no other financial institutions were set to collapse. Especially scary was the swiftness with which Bear Stearns was forced to sell out, for just 10 percent of its market value last week.

The Federal Reserve Board acted swiftly to allay fears that Bear Stearns' problems would set off a chain of other investment banks faltering. The Fed cut its emergency lending rate to financial institutions to 3.25 percent from 3.5 percent Sunday night two days before its scheduled meeting today.

It guaranteed JPMorgan's deal for Bear Stearns, backing up to \$30 billion of Bear's most troubled assets: mortgage securities that have plummeted in value and have become tough to sell. The central bank also set up a lending option for firms, including many nonbank financial services firms, to secure short-term loans for a range of collateral.

The market remained extremely volatile. The sale of Bear Stearns - at a minuscule \$2.21 a share as of Monday's close, or a total of \$260.5 million - stirred fear among investors worldwide about other banks' exposure to the troubled credit markets.

"The real problem - and the one that should scare investors more than anything right now - is that even Bear Stearns' senior management didn't have a good grasp of their financial problems until things fell apart," said David A. Twibell, the president of wealth management at Colorado Capital Bank. "To the extent the current credit crisis stems from a lack of confidence in the financial system - which I believe it does at this point - it's hard to rectify when even those closest to the situation lack accurate information."

The Dow rose 21.16, or 0.18 percent, at 11,972.25, after falling nearly 200 and rising more than 100. The blue chip index was supported partially by JPMorgan, by far the biggest gainer among the 30 component stocks. JPMorgan rose \$3.77, or 10.3 percent, to \$40.31. The Standard & Poor's 500 index fell 0.90 percent and the Nasdaq composite index, heavily populated by small and high-tech companies, fell 1.60 percent.

"Given what we don't know I think the reaction was about right," said Rich Wobbekind, an economist at CU's Leeds School of Business. "Indication of more confidence in the bigger Dow companies is warranted."

The Bear Stearns rescue effort, which came after the risks Bear Stearns took brought it to the brink of bankruptcy, may also have changed investment banking itself forever.

Investors can no longer bank on the certainty that the pillars of Wall Street will be profitable even during economic downturns.

"We are convinced that there may be additional announcements from other Wall Street firms, and we are encouraging investors to diversify with an eye toward quality and a longer time horizon," said Gregory Anderson of Denver's GRAnderson Wealth Management.

Wall Street's other big investment houses - Goldman Sachs Group Inc., Lehman Brothers Holdings Inc. and Morgan Stanley - will face some tough questions when they begin reporting first-quarter results today. Lehman CEO Richard Fuld denied the firm was facing similar liquidity problems, but the stock lost 20 percent of its value Monday.

Carlyle Capital Corp., which faltered because of investments linked to mortgage-backed securities, said it will wind down its operations and there would be no payout to shareholders. Futures and options broker MF Global Ltd. lost more than half its market value Monday as the company sought to counter suggestions it could be in financial trouble.

Bear Stearns tried to fend off those same questions last week, before the flood of margin calls sank it. Customers and investors fled, wiping out a firm that survived the Great Depression.

Many Bear Stearns' employees said they still couldn't believe that the nation's fifth-largest investment bank was essentially out of business. Employees said there was no meeting about what was happening.

Bear was forced into a JPMorgan-led, government-backed bailout on Friday.

JPMorgan announced Sunday night it would acquire the firm in a deal now worth \$2.21 a share, or \$260.5 million, which the federal government fast-tracked to avoid a bankruptcy.

What does it mean?

JPMorgan's eleventh-hour bailout of Bear Stearns for \$2 a share rocked Wall Street and has investors with the banking firm and anyone with stock asking questions. We try to answer a few, with some help from local and national experts:

*** What happens to investors who have accounts with Bear Stearns?**

Accounts at Bear Stearns, an investment bank that does not cater to consumers, are not insured by the FDIC. But JPMorgan Chase & Co., which plans to buy Bear, has assured Bear's customers it will guarantee all of the bank's business. Customers of failed brokerages are protected, however, by the federal Securities Investor Protection Corp., which can restore investor assets held by financially troubled firms.

*** What about the Bear Stearns shares that people own?**

Bad news: They are worth 95 percent less than they were at the start of January. Stockholders will be given 0.05473 shares of JPMorgan Chase for each share of Bear Stearns, or about \$2.

*** Who is getting stuck holding the bag?**

The firm's 14,000 staff members, who own about 30 percent of the company, lost pretty much all their equity. Cable channel CNBC said a higher-level employee who might have had \$15 million in stock at the beginning of last week now has about \$500,000. Former CEO James Cayne, who holds 5.8 million shares, was a billionaire a year ago and is not now.

Public shareholders, including mutual funds and pension plans, own the rest of the stock. As of Dec. 31, the most recent disclosure date, Legg Mason, Fidelity, Vanguard and Putnam all owned stakes in the firm. Its largest owner was Dallas-based value-oriented money manager Barrow, Hanley, Mewhinney & Strauss.