

Buyers avoid Bear Stearns' cut-priced sale

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Investors in the worse-hit of two stricken Bear Stearns hedge funds are offering to sell their holdings for as little as 11 cents on the dollar but still finding no buyers, according to unfilled trades on Hedgebay, a secondary market for funds.

Vulture funds and others have been quick to bid for holdings in the two funds, but the best bid for Bear Stearns High-Grade Structured Credit Strategies Enhanced Leveraged Fund, the more geared of the two, is just 5 cents on the dollar.

Private sales of stakes are the only way investors can exit the two Bear funds, after the bank suspended redemptions in May amid a wave of withdrawals.

"There are buyers but they can't agree on price," said Jared Herman, co-founder of Bahamas-based Hedgebay.

The less-geared Bear Stearns High-Grade Structured Credit Strategies Fund, which the bank has rescued with a \$1.6bn loan, is being offered at about 70 cents on the dollar. The fund is only attracting bidders at about 30 cents, according to people who use the system.

However, the last valuation, for the end of April, was before the near-collapse of the two funds, when lenders seized collateral held against the funds' borrowings. Most of the funds' assets are bonds issued by collateralised debt obligations – complex, illiquid and hard-to-value securities.

Bankers said initial valuations of the Enhanced Leverage Fund's assets indicated a strong chance that investors' cash had been wiped out. Estimates for the less-geared older fund suggest it has enough to underpin the \$1.6bn rescue loan and leave about \$400m for investors.

The Enhanced Leverage Fund's net assets of \$638m were more than 10 times geared in March, meaning a drop of just 10 per cent in the value of its holdings would wipe out investors.

Market participants estimate the CDOs the Bear funds held would sell for at least 10 per cent less than the values calculated by lenders. "Where things transact is still many points below where dealers have been marking them," said one manager of CDOs and hedge funds. "That is the big ugly secret of this market."

The Hedgebay offers for Bear's Enhanced Leverage fund suggest investors believe it has been worse-hit than Amaranth Advisors was last year. Shortly after it emerged that Amaranth had lost more than \$6bn from bad bets on natural gas futures, investors were willing to sell for 30-40 cents on the dollar.

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