

## Bear Stearns hedge fund investor files claim

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By Martha Graybow

NEW YORK (Reuters) - Bear Stearns was hit on Wednesday by a legal claim stemming from the meltdown of two of its hedge funds, sending its shares, already under pressure from woes at a third fund, to a 19-month low.

The securities firm has been slapped with an arbitration claim for allegedly misleading investors about its exposure to subprime mortgages. The claim, filed with the NASD, was brought on behalf of a 73-year-old retired insurance salesman in Wisconsin who lost \$500,000 (250,000 pounds), according to the man's lawyers.

Investors have been widely expected to bring legal claims against Bear Stearns, which has been particularly hard hit by the contraction in the market for loans to home buyers with poor credit histories.

"I think there's probably more where that came from," said Bill Fitzpatrick, an analyst at Johnson Asset Management in Racine, Wisconsin. "I suspect they're going to be vulnerable to a series of lawsuits."

Asked if that could be putting added pressure on the shares, he said; "Absolutely."

Bear Stearns' strength in fixed income securities and reliance on the U.S. market means its underwriting and trading activities may be particularly vulnerable to the subprime downturn.

A wider credit crunch that is now sweeping Wall Street could be an even bigger problem, Fitzpatrick said.

"If we get a backup in credit spreads, we're going to see less origination, less securitization out there," he said. "That's the areas where they make their money."

Beyond that, two hedge funds it managed recently collapsed as securities known as collateralized debt obligations plunged in value. The CDOs were backed by subprime loans and sank amid mounting homeowner defaults.

The arbitration filed by Jacob Zamansky of law firm Zamansky & Associates, together with another lawyer, Ross Intelisano of law firm Rich & Intelisano, involves one of those funds, the High Grade Credit Strategies Credit Fund. It was filed on Wednesday morning and was brought against both Bear Stearns and Bear Stearns Asset Management, the lawyers said.

Bear said on Tuesday it halted redemptions in a third hedge fund after jittery investors wanted to pull out.

Bear Stearns shares were down 4 percent in late afternoon trading on the New York Stock Exchange, bringing its losses since the end of June to about 18 percent.

Zamansky said the claim contends Bear Stearns misled investors in Bear Stearns hedge funds about the funds' exposure to subprime risk. Zamansky said the firm has been contacted by numerous investors in the funds and he anticipates filing more claims on behalf of more investors.

"We expect to file claims in excess of \$100 million in losses," he said.

Monica Orbe, a spokeswoman for Bear, declined to comment.

Zamansky said the investor chose to seek arbitration rather than bringing a lawsuit in court because "arbitration is quicker and cost efficient."

