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Long-Term Capital Had Wide Bets

Fund Went Beyond Traditional Positions

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Investments by **Long-Term Capital Management** LP appear to have ranged far beyond traditional bets on the movements of bonds and takeover stocks, judging by recent Securities and Exchange Commission filings on the ailing hedge fund's stock holdings.

As of June 30, the fund owned $539.2 million worth of stock in 76 companies, including stakes in companies slated for takeovers like **Waste Management** Inc., **Teleport Communications Group**, and 360 **Communications** Co., all purchased earlier this year. Such investments, called risk arbitrage, involve the simultaneous purchase of stock in a company being acquired and sale of stock in its proposed acquirer.

But Long-Term Capital's stock holdings also indicate that the Greenwich, Conn., hedge fund was involved in bets on the relative values of certain companies' stock, convertible stock, warrants, options and even the relative values of the voting and nonvoting shares. The hedge fund's nontakeover-related stock holdings included stakes in **Dell Computer** Corp., **Bear Stearns** Cos., and **Revlon** Inc.

"No investors that I know of got in to the fund expecting them to go beyond bond arbitrage," said Charles Gradante, managing principal of New York-based Hennessee Hedge Fund Advisory Group. "As it turns out, they were doing convertible arbitrage, risk arbitrage and options arbitrage."

Separately, **Credit Lyonnais** SA yesterday acknowledged that it made personal loans totaling $34 million to three Long-Term Capital partners. The bank says the loans are guaranteed and it has no other loans outstanding of this type. Credit Lyonnais wasn't among the Wall Street securities firms and commercial banks that put up cash for the rescue of Long-Term Capital.

The latest SEC filings appear to significantly underrepresent the amount of capital that Long-Term Capital put at risk in the takeover arena. "This is not a big risk-arb portfolio," said one risk-arbitrage investor. "These aren't the big deals that are around. Why would they waste their time?"

The explanation lies in derivatives, whose values are derived from an underlying security or other assets, which can be a low-cost way to make leveraged bets. Long-Term Capital took positions in many takeover stocks by purchasing derivatives, according to someone familiar with the fund's investments. The derivatives positions don't show up in the SEC filings.

Some of those derivatives, purchased from financial institutions, entitled the hedge fund to collect the price increase of the takeover stocks without actually having to buy the stock, he said. And by using derivatives, the firm wasn't bound by limitations on borrowing more than 50% of the value of a purchased stock.

Using such leverage enables an investor to squeeze higher profits out of takeover arbitrage deals that may be shunned by some investors as not profitable enough,

Please Turn to Page C19, Column 2