

Individual Investors and Auction Rate Securities

Recent reports have described how companies are dealing with their Auction Rate Securities issues. Although it has been reported that the credit crisis is receding, hundreds of U.S. companies still are struggling to clean up the problems caused by auction-rate securities.

A review of first-quarter earnings reports showed that more than 400 companies, including Google Inc., Bed Bath & Beyond Inc. and Starbucks Corp., held at least \$30 billion in the securities, instruments they once thought were as dependable as cash.

According to a study of earnings reports conducted by securities-valuation firm Pluris Valuation Advisors LLC, 402 public companies disclosed that they held variations of auction-rate securities. Half had written down the value of their holdings. Of those that did, the average markdown was 13.2%, the study shows.

Individuals and companies were sold auction-rate debt from municipalities, charitable organizations, student lenders and closed-end mutual funds.

The securities are long-term debt with short-term features. Their interest rates are meant to reset in weekly or monthly auctions conducted by Wall Street brokers. Buyers were attracted to their relatively high yields and a promise from Wall Street of an easy exit from the instruments.

But in February, Wall Street firms stopped supporting the market, causing it to freeze up.

It has been reported that ImClone Systems Inc. took an \$85 million



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impairment charge in the first quarter, \$69 million of which came from auction-rate securities it marked down by 43%.

Bed Bath & Beyond, the home-furnishing retailer, took a temporary 2.2% markdown on \$327 million of the securities; Google a 4.2% markdown on \$260 million of the securities; and Jet Blue Airways Corp. a

3.4% impairment on \$324 million of the debt. Starbucks took no impairment on \$70.5 million of such debt.

However, the individual investor doesn't have the luxury of the CFO of a public company, who can weather a number of write downs and wait for values to recover. If you have been sold auction rate securities that were represented as "money market equivalents," it may make sense for you to take action to liquidate and ascertain your losses before more write downs occur.

*Listen to Howard Rosenfield
with Anita Finley on Saturday,
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