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Bear Stearns Investor Lewis May Increase His Stake (Update2)

By Yalman Onaran - March 11, 2008 16:09 EDT

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March 11 (Bloomberg) -- Joseph Lewis, the second-largest shareholder in Bear Stearns Cos., may add to his holdings after the stock fell on speculation the company lacks sufficient access to capital, a person close to him said.

Lewis, a 71-year-old billionaire who began building his Bear Stearns stake in September, views the investment as long-term and isn't bothered by the falling share price, the person said, declining to be identified because Lewis doesn't make public statements about his holdings.

Bear Stearns said ``there is absolutely no truth to the rumors of liquidity problems'' and Chief Executive Officer Alan Schwartz said company finances ``remain strong.'' The firm will probably have $1.9 billion in additional writedowns in the first half of 2008, Deutsche Bank AG estimated in a report today.

Bear Stearns, the second-biggest underwriter of mortgage- backed bonds, rose 67 cents, or 1.1 percent, to $62.97 at 4:08 p.m. in New York Stock Exchange composite trading. The stock fell to as low as $55.42 earlier today, and lost 11 percent yesterday.

``The problem is Bear's business model is broken,'' said Richard Bove, an analyst at Punk Ziegel & Co. ``They won't be able to get the earnings to the 2006 level for another five to six years. That's a good reason to sell the stock.''

Lewis, who owns 9.4 percent of Bear Stearns according to Bloomberg data, acquired his shares as the stock was losing value with the collapse of the subprime mortgage market. Barrow Hanley Mewhinney & Strauss is the biggest shareholder, according to Bloomberg data.

SEC Monitoring

Christopher Cox, the chairman of the U.S. Securities and Exchange Commission, said the agency is monitoring capital levels at Bear Stearns and other securities firms on ``a constant basis.''

``We have a good deal of comfort about the capital cushions at these firms at the moment,'' Cox told reporters today in Washington.

Bear Stearns's stock has declined almost 60 percent in the last 12 months. Other U.S. stocks rallied the most in five years today after the Fed said it would pump cash into the financial system to shore up banks battered by mortgage-related losses.

Citigroup Inc., Wells Fargo & Co. and Bank of America Corp. led financial shares to their biggest advance since Jan. 23 on expectations the Fed's move will spur lending to companies and homeowners.

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