



ARS NEWSLETTER

March 11, 2008

Money set aside to close on a property or a new home. Money set aside for a medical emergency due to ongoing health problems. Money set aside for payment of income tax. Money simply set aside as a liquid and safe investment. Same as cash, so everyone was told!

What has happened?: Since mid-February our firm has fielded hundreds of calls and e-mails from investors who were misled into purchasing ARS investments. The brokers, who were likely misled themselves, have been saying that a “solution” is in the works. However, no potential solution has been articulated. The only solution being offered is that the brokerage firms were gracious enough to loan your own money back to you. If you were lucky enough, they gave you a decent interest rate.

The Developing Secondary Market: Despite reported discussions to the contrary, a secondary market sponsored by the major brokerage firms never materialized. However a firm did recently come on to the scene creating a secondary market. A story in Forbes.com discusses this secondary market and was posted on the following website:

<http://www.restrictedsecurities.net/pressroom/auction-rate-ecm.htm>

Of course, investors are getting very low bids on these supposedly safe investments as institutional investors are seeking to take advantage of panic selling. The range seems to be from fifty cents on the dollar to seventy five cents.

Value of ARS: Its no surprise to those in the know that these securities they are not selling at par. They were simply not worth what the investor paid for them because they were not really a “cash” investment. According to one money manager, he has been telling his clients to stay clear of the ARS market for years:

<http://www.marketwatch.com/news/story/story.aspx?guid=%7B8E1F64CD%2D959A%2D46B4%2D83A4%2DAE9411E06FB7%7D&siteid=rss>

Is There Any Light at the End of the Tunnel?: There is no sign of an end or a solution unless you are in a higher yielding ARC or auction rate certificate issued by a municipality. Lawmakers seem more concerned about the pinch the auction failures are putting the municipalities than the grief causing investors:

<http://www.bloomberg.com/apps/news?pid=20601103&sid=avH68.TOCYHM#>

There may be some light at the end of the tunnel if you are in a higher yielding ARC, but if you are in an auction rate preferred, or ARP, issued by a closed-end fund the outlook is less promising, especially if the yield is under 5%.

Our Firm

Shepherd, Smith & Edwards, LLP is a law firm that handles securities cases for individuals and institutions nationwide. Our attorneys and staff have more than 100 years of brokerage and legal experience, placing us in a unique position of understanding both the law and the industry surrounding securities. If you have any questions, please contact us at (800) 259-9010 or email us at arsinfo@sselaw.com.