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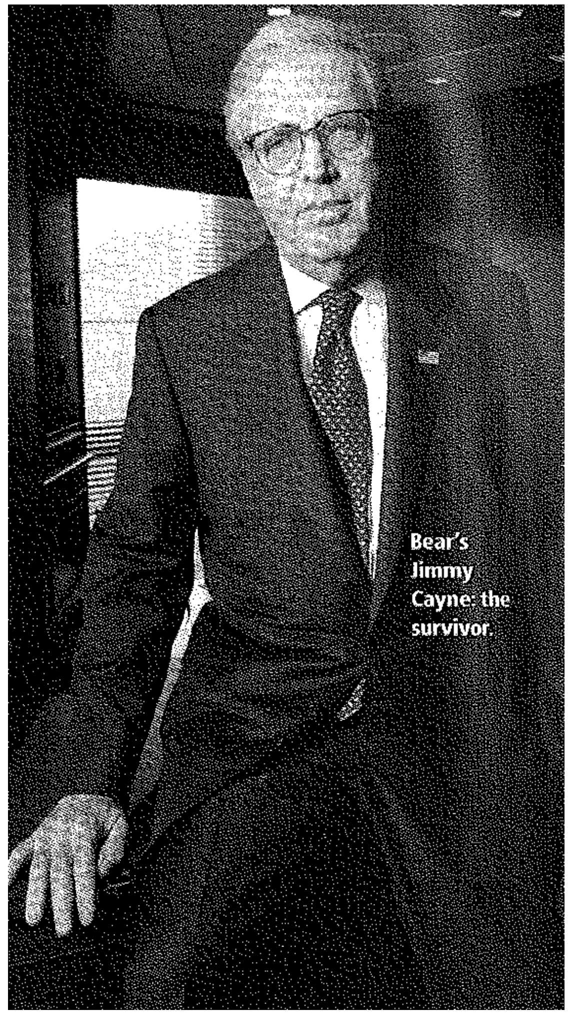
Street Pariah



Bear's Jimmy Cayne: the survivor.

Merrill Lynch is the favorite Wall Street whipping boy right now, but let's not forget BEAR STEARNS (113, BSC**).** After all, this was the firm whose two hedge finds imploded so spectacularly this summer. Bear's heavy exposure to mortgage securities and leveraged loans further damaged third-quarter earnings. Among other investment banks, it is the runt, with a return on equity of 18%, versus 21% to 32% for the others.

The longtime rap on Bear: It isn't well diversified, preferring to focus on fixed-income securities. Given the credit meltdown, that focus seems dumb. But note that after the 1990s' roaring stock market went wrong, Bear's concentration made it look pretty good. The cycle will turn again. Meanwhile, Bear has sufficient capital to weather any storms.

James Cayne, 73, Bear Stearns' grizzled chief, is a master bridge player. His card-table patience and strategic sense have guided the firm through previous imbroglios, such as its 1999 federal fine for providing back-office services for penny-stock scam house AR Baron. While Bear will face lawsuits up ahead, **Richard Roth**, a securities lawyer and the kind of guy an angry investor would sic on Bear, says: "If anyone knows how to get out of this, it's Bear Stearns."

The stock has tumbled from its May high of $158. Susan Katzke at Credit Suisse is one of the few analysts with a favorable rating. At a trailing price/earnings multiple of 10, Bear is cheaper than rivals at around 15.

—Klaus Kneale