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Was Someone Squeezing Treasuries?

A STORM swept through the United States Treasury market in June, creating big losses at banks and brokerage firms and bringing back memories of the infamous short squeeze by Salomon Brothers in 1991 that ultimately brought the firm to its knees.

The recent turmoil is a troubling sign that the pools of capital at hedge funds and investment firms have grown so enormous that they can easily swamp the government securities market, one of the world's deepest, most liquid and heavily used financial markets. The upheaval also involved a short squeeze — financial-speak for what happens to short-sellers when they are forced to stanch their losses in a buying spree that sends prices higher and higher.

Back in 1991, remember, a trader at Salomon Brothers propelled the price of Treasury securities skyward by illegally buying more than the firm's allotted share at auction. That squeeze created significant losses for many other players in the market and enraged regulators. The government punished the trader, Paul W. Mozer, and the firm, which paid $290 million in fines and penalties to settle the matter. John H. Gutfreund, Salomon Brothers' chief executive at the time, resigned as a result of the mess.

Recent turmoil harks back to the 1991 Salomon Brothers case.

This time around, the market upheaval centered on a 10-year Treasury security issued in February 2002 that pays an interest rate of 4.875 percent. The notes generated about $25 billion for the government when they were issued, but the amount of bonds changing hands regularly, known as the float, is significantly smaller than that.

It's not known who was behind the recent short squeeze and there is no indication that the activity was illegal.

But by far and away the largest holder of the 10-year Treasury in question, and therefore the one that would benefit the most from the action, is the **Pacific Investment Management Company**, or Pimco, the $500 billion money management firm specializing in fixed-income investments and overseen by William H. Gross.

As of June, according to data from Bloomberg News, Pimco held more than 45 percent of the outstanding 10-year security in its various funds. Pimco's percent of the daily float was unknown but would have been far larger.

James M. Keller, a managing director at Pimco and director of its government/derivatives desk, said that the company as a policy does not comment on its trades.

This particular 10-year note was also the security underlying a Treasury futures contract that expired in June. Such contracts are crucial hedging vehicles for investors and traders in mortgage-

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ABOUT THE TABLES

Beginning today, Sunday Business is making its financial tables more concise, reflecting the growing use of listings online and the increasing cost of newsprint.

The mutual funds table will list those with assets of at least $200 million; the previous minimum was $30 million. When a fund offers more than one share class, the one with the greatest assets will be retained; its returns are representative of the other classes as well.

Thousands of mutual funds are listed online at www.nytimes.com/business.

The table for closed-end funds will be expanded to include exchange-traded funds. Those funds will no longer appear in the regular stock listings.

The table for preferred stocks will be consolidated and will omit high and low prices.

Comments may be e-mailed to tables @nytimes.com or telephoned to (212) 556-3715.

HBO ("The Sopranos"); Getty Images (computer); Illustration by The New York Times

The Rise of the Digital Thugs

They Found Your Secrets and They'll Keep Them, for a Price

By TIMOTHY L. O'BRIEN

EARLY last year, the corporate stalker made his move. He sent more than a dozen menacing e-mail messages to Daniel I. Videtto, the president of MicroPatent, a patent and trademarking firm, threatening to derail its operations unless he was paid $17 million.

In a pair of missives fired off on Feb. 3, 2004, the stalker said that he had thousands of proprietary MicroPatent documents, confidential customer data, computer passwords and e-mail addresses. Using an alias of "Brian Ryan" and signing off as "Wounded Grizzly," he warned that if Mr. Videtto ignored his demands, the information would "end up in e-mail boxes worldwide."

He also threatened to stymie the online operations of MicroPatent's clients by sending "salvo after salvo" of Internet attacks against them, stuffing their computers so full of MicroPatent data that they would shut down. Another message about two weeks later warned that if he did not get the money in three days, "the war will expand."

Unbeknownst to the stalker, MicroPatent had been quietly trying to track him for years, though without success. He was able to mask his online identity so deftly that he routinely avoided capture, despite the involvement of federal investigators.

But in late 2003 the company upped the ante. It retained private investigators and deployed a former psychological profiler for the Central Intelligence Agency to put a face on the stalker. The manhunt, according to court documents and investigators, led last year to a suburban home in Hyattsville, Md., its basement stocked with parts for makeshift hand grenades and ingredients for ricin, one of the most potent and lethal biological toxins. Last March, on the same day that they raided his home, the authorities arrested the stalker as he sat in his car composing e-mail messages he planned to send wirelessly to Mr. Videtto. The stalker has since pleaded guilty to charges of extortion and possession of toxic materials.

What happened to MicroPatent is happening to other companies. Law enforcement authorities and computer security specialists warn that new breeds of white-collar criminals are on the prowl: corporate stalkers who are either computer-savvy extortionists, looking to shake down companies for

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A Money Scandal That's Rocking Hip-Hop

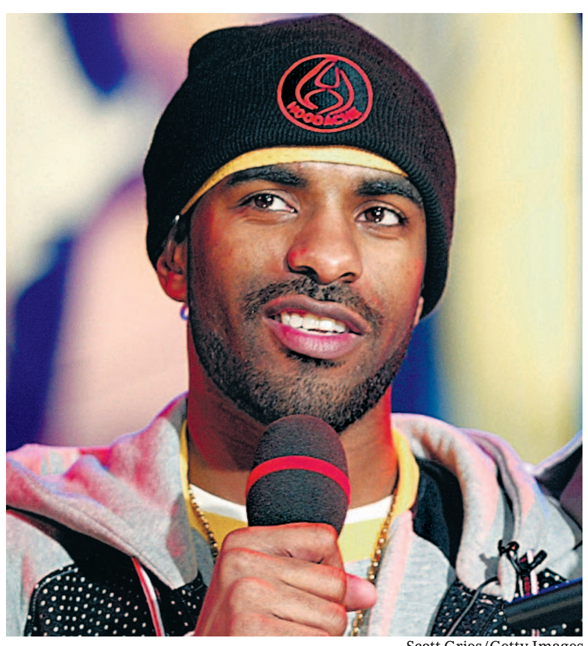
By JEFF LEEDS

GABRIELE T. SMITH seemed to carry an all-access pass to rap music's circles of power. Usually decked out in designer clothes, she vacationed with the music supercouple Jay-Z and Beyoncé in the Caribbean. She dined at Mr. Chow in Manhattan. She traveled in style to the N.B.A.'s All-Star game.

In fact, Ms. Smith had nestled so comfortably into the bling-encrusted embrace of the industry's heavyweights that she established herself as the money manager to the stars. At major investment houses and then through her own company, **Premier Business Management** L.L.C. in New York, Ms. Smith built a client list that included the president of the Def Jam Recordings label, rap stars like Fabolous and DJ Clue, and an assortment of wealthy young music executives.

These days, however, many of those same executives and artists are accusing Ms. Smith, a 35-year-old stockbroker and former talent scout, of running an elaborate hustle. In lawsuits filed against her and the banks where she maintained accounts, former clients say Ms. Smith stole more than $3 million, using some of their money to pay other investors and pocketing the rest.

In addition to the lawsuits, which have been filed in New York Supreme Court in Manhattan, public records indicate that at least one client has undertaken private claims against her former employers, **Morgan Stanley** and **Prudential Securities**, in arbitration proceedings. The firms declined to comment on the claims. **J. P. Morgan Chase** and **HSBC**, two banks named as defendants in some of the lawsuits, also declined to comment.



Scott Gries/Getty Images

DJ Clue, above, was a client of Gabriele Smith. She has been accused of stealing from investors.

Ms. Smith has also been indicted on federal charges that mirror many of the allegations in the lawsuits, according to people briefed on her case. The charges, in Federal District Court in Brooklyn, are under seal, which is sometimes a sign that prosecutors may offer a deal for a defendant's cooperation in another case.

Whether Ms. Smith possesses any information that authorities may find useful is a mystery. There is speculation in rap circles that she may provide information in another federal inquiry, this one into suspicions of money laundering involving a convicted drug dealer, Kenneth McGriff, and the rap music label Murder Inc. Ms. Smith's company managed a bank account from which it paid business and personal expenses "on behalf of" Mr. McGriff, according to a document filed by prosecutors. Investigators have seized the account. Mr. McGriff and others involved in the case are scheduled to go on trial in October.

While the various civil and criminal cases inch through the courts, Ms. Smith's former clients say they are angry, embarrassed and trying to figure out: How could she have bamboozled some of the savviest players

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