

Big Account In Arizona May Hold Bayou Cash

By JENNY ANDERSON
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It was a hedge fund in the suburbs of Connecticut, the home of many huge hedge funds, one run by a well-connected trader. Nothing appeared amiss until the hedge fund promised last month to return investors' money and then went silent — no money, no communications.

The fate of the more than \$400 million that the fund, **Bayou**, said it had under management was unknown. Now, part of the mystery may be solved.

Authorities in Arizona have seized \$101 million in a **Wachovia Bank** account that they say could be funds from Bayou. The funds, which have traveled around the world, have not been verified as Bayou money. But both Samuel Israel III, Bayou's

*Money that is said to
have made a tortuous
worldwide journey.*

founder, and the account holder, **Majestic Capital**, a firm whose connection to Bayou is not clear, have indicated to the Arizona attorney general's office that the money belonged to Majestic. It, in turn, understood that the money was in accounts for the Bayou Fund L.L.C. or its founder, Mr. Israel, according to Cameron Holmes, chief counsel in the financial remedies section of the attorney general's office.

The development is the first hopeful sign for the wealthy investors in Bayou, who have been worried that none of their money would be returned.

Ross B. Intelisano of the law firm of Rich Intelisano, which is representing a group of Bayou investors,

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Big Account in Arizona Could Hold Bayou Fund Money

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said, "We are in the process of making applications to the Arizona attorney general for our clients' pro rata share of the funds seized."

But the disclosure that the Arizona authorities had potentially secured \$101 million of the fund's assets does not answer other questions, including where its principals are and what they did with the money. Federal and Connecticut officials are investigating the apparent collapse of Bayou.

Arizona authorities were investigating an unrelated financial fraud and became suspicious because the money they were examining as part of a prime bank instrument fraud had been zipping around accounts, moving from London to the Wachovia bank and then on to Wachovia's Hong Kong unit.

As part of their investigation, Arizona authorities discovered that the money might be moved to Los Angeles and possibly to Smith Barney in New York. At one point, they were told the funds were the proceeds of a loan secured by a gold mine in Arizona.

Suspicious at the pace of transfers, the state attorney general's office seized the funds on May 19. On June 23, lawyers from Bayou Management filed papers signed by Mr. Israel, claiming \$100 million of the money and indicating that the funds seized by the state belonged to Majestic Capital. In the claim, according to a summary of it from the Arizona regulators, the money traveled from Citibank to two banks in Germany, on to London, then to Wachovia and finally, via a transfer by Lewis Malouf, a Bayou Management director, to Wachovia Bank in Hong Kong.

The Arizona attorney general's office would not release the funds. "We told them we would wait until we knew where the money came from and whose it really was," Mr. Holmes said.

Early in July, as part of the proceedings surrounding Bayou's claim to the funds, the hedge fund, which is based in Stamford, Conn., delivered a letter to the attorney general's office as an exhibit to its claim.

The letter, dated June 5, from Karl Johnson, executive director of Majestic, to Mr. Malouf asserted that the funds in the Wachovia account "are the sole and separate property of Bayou Funds L.L.C.," Mr. Holmes said.

Mr. Johnson's letter indicated that



Alan Zale for The New York Times

The home of Samuel Israel III near Mount Kisco in Westchester County.

the funds had been directed to Wachovia for a financial transaction that did not pan out, and stated that it was the intention of Majestic to get the funds back to Bayou.

The claim will be heard in a court in Phoenix tomorrow, according to Mr. Holmes. "It's not at all clear," he said, "why someone who is supposed to have money hard at work for investors would have it bouncing all over the world."

Bayou's founder, Mr. Israel, was not broadly known on Wall Street, but he and his family were well known among active traders.

"I've known him for 25 years," said Stephen McMenamin, executive director of the Greenwich Roundtable, a research and educational organ-

ization for investors in hedge funds and other investments. "He has always been a day trader. He had a reputation for making money."

Mr. Israel grew up in New Orleans and attended Tulane University — "hence the name Bayou," according to the firm's marketing materials.

Mr. Israel is around six feet, with a stocky build, a former associate said, noting that a back problem had kept him from exercising vigorously in recent years.

Mr. Israel was able to raise funds through a web of family and professional connections. One of his initial partners at Bayou was James Marquez, a former trader with George Soros and Michael H. Steinhardt, two of the most prominent

names in the hedge fund business.

Mr. Israel worked with Daniel Marino, Bayou's chief financial officer, at HMR Investors, a hedge fund Mr. Marquez set up after leaving Mr. Soros. Mr. Marino encouraged Mr. Israel to set up his own fund, promising to handle all the back-office-and accounting matters for him so he could focus on his trading, a person who knows both men said.

Another big name Mr. Israel cited in marketing materials for Bayou was Omega Advisors, a \$4 billion hedge fund run by Leon G. Cooperman, a former Goldman, Sachs partner. Mr. Israel said he was head trader for Omega from 1992 to 1996, where he was "responsible for all equity and financial futures executions."

An official at Omega said yesterday that Mr. Israel had exaggerated his relationship with the firm. Mr. Israel worked there only 18 months, this person said, and was not directly responsible for any investments it made. "He executed orders on behalf of senior partners at the firm," the official said. "He was an order trader and administrator."

The official said Omega had received only one phone call over the years to verify Mr. Israel's relationship with the firm.

Mr. Israel lives on a large, leafy estate behind a stone wall in the Mount Kisco area of Westchester County. At the end of a long private road leading to a circular drive, two heavy urns were positioned yesterday to prevent access.

"He was a good neighbor; he left us alone," Andrew N. Heine, said last night. "He was the sort of a neighbor you would want, I guess, unless you were an investor."

Eric Dash contributed reporting for this article.