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Puerto Rico's Market-Beating Bonds Still Leave Holders Guessing.

Puerto Rico bonds have outperformed U.S. stocks, corporate debt and every other corner of the municipal-securities market since the Caribbean island's financial crisis precipitated an unprecedented federal takeover. Yet investors still don't know how much of what they're owed they'll get back.

The rally, which pushed the S&P Dow Jones Puerto Rico index up nearly 14 percent since mid May, came after a series of defaults led President Barack Obama to enact a law in June aimed at halting the collapse. The resolution will now largely be up to a seven-member federal control board, which is entrusted with overseeing talks with creditors to restructure the island's \$70 billion of debt. If investors balk, Puerto Rico now has the power to have debt written down in court, as is routinely done in bankruptcy.

While the control board was formed late last month and is set to hold its first meeting on Sept. 30, investors still have no clear indication of how much of their debt they'll recoup — or when. One of Puerto Rico's most frequently traded securities, general obligations due in 2035, last traded for an average of 65.6 cents on the dollar.

"There's still lots of uncertainty about what's going to happen, how long it's going to take and what the eventual agreements will be," said Daniel Solender, head of municipals in Jersey City, New Jersey, at Lord Abbett & Co., which manages \$20 billion of state and local debt, including Puerto Rico bonds.

Given the various tax and legal pledges that back the securities, not all investors stand to be treated equally, and not all of the debt has gained in price. With Puerto Rico's July 1 default on general obligations, some of those securities have fallen this year. But electric-power bonds and debt secured by sales taxes — neither of which have missed payments — have climbed, data compiled by Bloomberg show.

Puerto Rico has been allocating funds to cover payments due on the sales-tax debt in this fiscal year and has already struck a restructuring agreement with the power company's creditors.

Investors must now gauge what their potential recovery might be and how long it will take for a deal to emerge.

"Even if you knew you were going to get a higher price, you have to be confident it's not going to take so long that you're going to give up too much on the time value of money," Solender said.

If Puerto Rico's last offer were accepted, some bondholders stand to see further gains. The recovery rates that the commonwealth proposed in June are higher than where the securities are trading, with 83.5 cents on the dollar proposed for general-obligations. That's nearly 18 cents more than the 2035 bonds, which have an 8 percent coupon, and 24 cents more than those paying interest at a rate of 5 percent.

No new offer has emerged since the federal control board was created, and the panel won't formally begin its work until its meeting next week. Its first task is working with Governor Alejandro Garcia Padilla's administration on a fiscal plan that will serve as a baseline for negotiations. Puerto Rico has some breathing room: The next major round of debt payments don't come until Jan. 1, when \$940 million is due, according to data compiled by Bloomberg.

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