

A Shorts Story

John M. Jacquemin's hedge fund roadmap.

By Natasha Gural, Editor-in-Chief



The subtle hint of a fading French accent complements John M. Jacquemin's imperturbable manner, even as he advocates for radical measures, like razing empty houses to remedy the real estate fiasco.

The Vienna, Va.-based hedge fund manager appears unfettered amid the unexpected and unprecedented turbulence of 2008. He founded Mooring Financial Corporation in 1982, amid the most serious recession since the Great Depression. "It was just dumb luck to launch my company in a bad recession," says Jacquemin.

Twenty-six years later, he says, "we didn't forecast this level of volatility by any means. It wasn't even part of our roadmap, which we still follow. A lot of speed bumps and potholes have made it more difficult to navigate."

But by sticking to that roadmap, Jacquemin's never been thrown too far off course. "We tend to take positions we think will evolve over two to three years," he says.

Long and lean, the 62-year-old triathlete has carved out his own path, shorting oil (in August), the Chinese market (in January), the dollar (in August), real estate (early 2007), financials (mid 2006) and credit cards (early 2008). He shorted Washington Mutual when the stock was in the \$40s, then "WaMu just went poof and we closed it down at 16 cents." Jacquemin's philosophy has served him well, as good bets have offset the bad.

Distressed Bets

The flagship Mooring Capital Fund, which acquires and manages distressed, sub-performing and performing commercial loans, has gained 8.5 percent as of the first three quarters of 2008. As of Sept. 30, the total return to investors, with reinvestment of quarterly redistributions, was 201.83 percent since its inception in 1999. The fund also invests opportunistically in publicly traded equities. Its portfolio is diversified by asset type in the U.S. and overseas, and includes loans secured by office buildings, retail centers, warehouses, assisted living facilities, aircraft and marine vessels and religious institutions. It also includes long and short equity positions.

"We buy distressed [loans] and keep them until they pay off or mature," says Jacquemin. "I think that has given us stability."

Jacquemin calls the Mooring Intrepid Opportunity Fund "a different kind of animal."

The hedge fund was launched in February 2007 to capitalize on an expected re-pricing of credit risk in the high-yield corporate bond, commercial mortgage-backed securities and subprime residential mortgage-backed securities markets. It has gained 86.4 percent year-to-date as of Nov. 30, 15 percent in the month of November, and 215.8 percent since its launch. The fund invests in various credit derivative indices, including the High-Yield Corporate Bond Index and the Commercial Mortgage-Backed Securities Index.

"I've always taken the long-term view. If we can't buy an asset at the right price, sit back and get liquid," Jacquemin says. "We've bought very little in commercial distressed debt in the past three years because competitors were outbidding us. So many new private equity and hedge funds have focused on the vulture aspect. We're not in it to win deals, we're in to make money."



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Burning Down the House

The collapse of the U.S. housing market has ignited a global recession. The Federal Reserve's new plan includes financing for a new package to shore up the housing industry, which could lead to distorted market pricing by propping up insolvent borrowers as central banks push down yields.

"We have a true oversupply of housing units," Jacquemin says. "Our estimate is for two-and-half years for the excess supply to be sopped up." Jacquemin, who in 2006 predicted the bursting of the housing bubble, advocates extreme measures: "Some municipalities are bulldozing [unoccupied homes] to get rid of a housing glut."

Looking ahead, Jacquemin forecasts "for sure, another bubble in the next 10 years that we can't predict what form it will take."

The private investment firm that manages alternative assets for high net worth individuals and institutional investors, has two other funds: Mooring Tax Lien Fund I, formed in 2008 to take advantage of a supply and demand imbalance for delinquent property tax liens within the state of Florida; and Mooring Secured Liquidity Fund, which invests in real estate tax liens.

A Simple Plan

The collapse of the U.S. housing market has ignited a global recession. "We try to take a macro view and we don't use rooms full of high-powered computers to form our strategies," Jacquemin says. "We've seen some big quant shops blow up starting with LTCM."

Running an investment firm in a picturesque town some 13 miles west of Washington, D.C., and more than 200 miles from Wall Street, provides a unique perspective.

"We're totally isolated in Virginia from other people who do this, so it seems to me in residential and commercial real estate and the buyout market, it reached insane levels of valuation in late 2005," he says. "I started shorting Countrywide in 2005, and bought puts that expired."

Of the real estate market, he says: "We mostly see that area taking a breather. I think analysts have way underestimated the default rates."

Jacquemin began shorting U.K. homebuilders in 2005. "I saw they were making 50-year mortgages, and to unrelated groups," such as people with no family or personal relationship ties, he says, "all in the name of trying to buy a place. It's so far out of the historic range of profitability. In the U.K., shorts took a wallop. We were down 30 percent in the first year, and now up about 80 percent on those shorts. We saw this early, too early, but stayed with it."

"When we first started shorting derivatives indices, I'd go to some of my Wall Street friends and say junk bonds issue 2.50 over Treasuries. Do you really think this presents a risk premium for private equity deals? You'd ask them: 'What's your strategy?' and they'd say 'Let's keep making deals.'"

Looking Ahead

"The last time I thought stocks were really cheap was in 1982 and the S&P was selling at book value," Jacquemin says.

"I think we're going to see profits decline across the



board. I think we'll see a lot of highly leveraged companies go out of business." Jacquemin sees his approach as a model for the future, as losing managers look to emerge from the turmoil. "I always expect the unexpected, the unprecedented," he says.

"I think it's going to be more conservative groups of money managers who have stood back as we have, saying: 'We're not paying these amounts, we're content to bid or offer what we want and walk away with nothing,'" says Jacquemin.

Jacquemin blames the "greed factor" for the monumental losses of 2008. He calls billionaire Ted Forstmann, founder of U.S. buyout specialist Forstmann Little & Co., "one of the few smart ones," Jacquemin says. "He refused to play the game."

Competitive Edge

Like Forstmann, Jacquemin refuses to play the game. "We're not really involved in mainstream hedge fund activity," he says.

A competitive runner in high school, Jacquemin completed his first triathlon at age 44. His approach to athletics is much like his approach to managing assets.

"I had to cut way back on running. I don't want to have failed joints," he says.

Jacquemin, who ran one Marine Corps. marathon a decade ago, cut his running by two-thirds and added swimming and biking.

"I did my first triathlon and I got hooked," he says. "I love the three sport aspect of it." ○