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Small Fund Wins Big With Financials Bets

Move over, John Paulson.

A little-known Virginia hedge fund manager with a bearish tilt is racking up higher returns than Mr. Paulson, the New York billionaire who gained fame betting against the sub-prime mortgage market in 2006. (Read his latest letter to investors after the jump).

John Jacquemin's **Mooring Financial**, which manages about $400 million across four funds, has posted returns of 21.7 percent through the end of February in his flagship Intrepid Opportunities Fund. Compare that to **Paulson & Company**'s 8 percent gain over the same period in its giant Advantage Plus fund, according to the latest weekly hedge fund report from HSBC. (Last year, Paulson & Company had gains of more than 30 percent.)

Part of Mr. Jacquemin's magic comes from betting against corporate debt, financial stocks and, more recently, real estate investment trusts. He opened the Intrepid Fund about two years ago, just as the worst financial crisis since the Great Depression was taking hold.

Since then, the fund has posted gains of 223 percent, primarily from taking short positions on various indexes that track corporate debt and betting early on the fall of **Washington Mutual**, **Countrywide Financial** and credit card companies like **Capital One**.

Mr. Jacquemin's older funds specialize in buying distressed mortgages and hard-to-value loans. But he prides himself on not overpaying and conducting rigorous analysis, even on relatively small loans that the larger funds typically pass up.

Because he refuses to overpay, Mr. Jacquemin loses many loans he bids on to rival funds. In late 2007, his decade-old Mooring Capital Fund bid on a $3 million mortgage backed by an office building in Sarasota, Fla. The building was occupied by its owner, a graphic design company that hadn't paid taxes in two years and was beginning to default on its mortgage payments.

It was clear the company would likely be evicted from the building, leaving the owner of the mortgage to find another tenant in one the worst areas of the country hit by the housing crisis. Mooring Capital bid about 33 cents on the dollar for the loan, but was beaten out by a much bigger Greenwich, Conn. hedge fund that bid more than 90 cents on the dollar.

"I couldn't believe it," Mr. Jacquemin told DealBook. "They must have done almost no due diligence on the property or the tenant."

That sort of discipline has helped the Mooring Capital fund post annual returns of 12 percent for the past ten years. Both Mooring Capital and the Intrepid Fund are looking for new investors.

Mr. Jacquemin, who has completed in 25 triathlons throughout his life, started buying distressed loans about 18 years ago from the Resolution Trust Company and the Federal Deposit Insurance Corporation.

Back then, the government was aggressive in seizing insolvent banks and selling their toxic assets — something Mr. Jacquemin believes should be done in the current crisis. He's betting that hundreds of banks will fail this year and more pain is ahead despite the Dow's 25 percent surge in the last four weeks.

"Many analysts are declaring that we've seen the bottom - again," he wrote in his latest letter to investors. "We don't see it that way." Housing values have further to fall and unemployment has not reached its peak, Mr. Jacquemin argues.

On **Citigroup**'s proclamation that it was profitable in the first two months of this year, Mr. Jacquemin wrote, "Of course they are."

But he added: "Without recognizing any more losses or reserves from its huge inventory of bad loans, it's easy to show a profit. But earnings from operations are not nearly sufficient to allow the banks to climb out of their huge insolvency hole."

As more banks fail and consumer spending continues to deteriorate, Mr. Jacquemin believes the government will eventually be forced to take more drastic action.

"I believe the best way to recapitalize the banks is to close down the insolvent ones and sell their assets to the highest bidder," he wrote.

–Zachery Kouwe

Letter to Mooring Investors March 20, 2009

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