

Thought for the Week: Monday, October 31st, 2011

The Eighth Largest Bankruptcy in U.S. History

If you've never heard of MF Global Holdings, you may be surprised to learn that its Chapter 11 bankruptcy filing on Monday is the eighth largest, by assets, in U.S. history.

Firstly, to reassure all our investors, we have no direct exposure to this event.

The table below shows the top ten holders of MF Global shares, as reported by Bloomberg, LP. These are the investors most exposed to the bankruptcy:

Security		MF US Equity	
Holder Group		Top 20 Holders	
	Holder/Securities	Agg Mkt Val ↑	MF US
	Public Portfolios		
1.	RS INVESTMENT MANAGEMENT	15,455,773	15,455,773
2.	FINE CAPITAL PARTNERS LP	14,589,174	14,589,174
3.	PYRAMIS GLOBAL ADVISORS TRUST CO	14,187,274	14,187,274
4.	CADIAN CAPITAL MANAGEMENT LLC	12,216,343	12,216,343
5.	ADVISORY RESEARCH INCORPORATED	10,959,116	10,959,116
6.	DIMENSIONAL FUND ADVISORS LP	10,704,596	10,704,596
7.	TIAA CREF INVESTMENT MANAGEMENT	10,648,381	10,648,381
8.	COLUMBIA WANGER ASSET MANAGEMENT	9,345,600	9,345,600
9.	VANGUARD GROUP INC	8,962,602	8,962,602
10.	FRANKLIN RESOURCES INCORPORATED	8,812,656	8,812,656

Are there any names on there that you recognize? In addition, MF Global bonds were widely marketed last year – does your portfolio contain any of these?

If you have any holdings in the above, the Chapter 11 filing process will determine the value of MF debt and equity. Unfortunately, the prospects look bleak as the SEC are currently investigating the loss of customer money from MF Global.

So far, the filing has not caused anything like the panic Lehman did and we don't expect too much negative market action. However, a number of Wall Street firms will be taking big losses on MF's debt.

Why did MF Global fail? They held over \$6 billion of troubled European bonds in a bet that things would work out and all the PIIGS would get bailed out with no pain to the bond holders. The first part of any European settlement requires Greek bond holders to take a 50% haircut on their value. And yes, this is a default.

B&G Foods (BGS)

With respect to DIAS, we believe we may have benefitted from the Chapter 11 filing of MF Global.

On Monday morning, we owned BGS (blue line in the chart below) which gapped up when the S&P 500 gapped down (red line). As soon as we saw the news we began selling and found the market would buy everything we could throw at it. Normally, we progressively sell positions to ensure buyers don't lower the price. In short order, we had sold our position entirely and locked in a substantial gain.

We suspect the reason for BGS shares being in such demand was that MF Global held short positions in BGS. This means they had made promises to sell the shares but didn't actually hold them. Therefore, someone entered the market to buy at whatever cost they could, thereby "covering" their short position.



Unlike long positions, we don't have the ability to see these short positions so this can only be supposition on our behalf.

General DIAS Positioning

The above was timely as we were starting to reduce our Consumer positions as the promise of increased Thanksgiving sales had generated good price appreciation for our portfolio holdings. As of last week, consumer stocks were starting to look like Christmas was already priced in. We therefore began to reduce our holdings.

Moreover, late last week we began reducing our overall exposure to markets and lock in recent gains.

The level of euphoria seen last week on a number of political announcements have little chance of being sustained given the European and U.S. political committees and processes that have to ratify and implement the decisions. We expect a bumpy ride and will continue our attempts to "buy the dips and sell the rips."