

Toronto Star

BUSINESS, Thursday, July 5, 2001, p. E01

Trials and tribulations of a stock market antichrist

'THIEFS (sic) and liars like you should be in jail. I hope (sic) they nail your b---s up!"

Ouch.

It's not easy being Manuel Asensio.irate investors send the most intemperate e-mails (see above).irate companies shower him with lawsuits. Someone snapped his photo once at Grand Central Station and he thought, what's that for? Identification reference for a pending mob hit?

On the phone from his Manhattan office, as the monied class screams out of New York for Independence Day, Asensio talks about being reviled. That is what you get when you not only short stocks, as Asensio does, but issue pungent news releases about the firms being shorted in which the word "fraud" is liberally sprinkled.

Short selling. Most of its practitioners prefer anonymity, which may explain why any reference to the practice requires a definition.

To short a stock: to place a bet that a company's share price is headed for a fall.

The technique: The investor borrows shares in the targeted company and sells them on the market at today's price let's say 10 bucks a share. The investor goes to bed dreaming that the stock is due to deflate thunderously. The stock falls to \$5. The investor buys at that price to replace the borrowed stock. Gross profit: 5 bucks a share.

Short selling is not easy and is certainly not for the faint of heart: a rising stock price will quickly remind the investor that her potential losses are limitless. To say nothing of the fact that the practice is seen as anti-market, the stock market equivalent of the Antichrist.

For Asensio, the short selling ride has been punishing. In the past four years Asensio and Co., Inc. has faced \$1 billion (U.S.) in lawsuits launched in jurisdictions from California to South Carolina. "We had at one time more than 30 lawyers working for us," says Asensio, who sounds fatigued just talking about it. Regulators from the American Stock Exchange camped out in his office, combing his records. They stayed two years.

In 1998, Asensio retained bankruptcy counsel, thinking maybe he couldn't survive the onslaught. He hasn't caved yet, though it sounds as though he's wavering.

"It's emotionally draining. It's physically draining," he says. "But I still have the same desire . . . The greatest feeling is starting at 8 a.m. and staying until midnight and at the end of the day finding one piece of the puzzle, being one step closer to knowing what's going on."

What has been going on is all laid out in *Sold Short: Uncovering Deception in the Markets*, written by Asensio with U.S. journalist and entertainment writer Jack Barth. In the book, Asensio dissects a raft of his successful shorts, from Crystallex International Corp. to Solv-Ex Corp. to Turbodyne Technologies Inc. The names of many of the plays will be familiar to Canadian investors.

Take Solv-Ex. In 1996, when Asensio issued his first sell recommendation on the company, Solv-Ex was promoting the extraction of bitumen from the Alberta tar sands. Asensio called Solv-Ex a "terminal short," meaning he figured it was headed to zero.

Asensio questioned first the way money had been pumped into the company, particularly through the London office of powerbroker Morgan Grenfell. He then commenced an examination of whether the company had inflated its extraction claims, and the profits it promised would flow from its operations. He talked to on-the-ground workers; he conducted aerial reconnaissance. The Solv-Ex promotion, he concluded, "was perhaps the greatest blizzard of way-over-the-top pumpery I have ever witnessed."

A Morgan Grenfell analyst held a contrary view: "Solv-Ex, between now and the year 2008, will be the fastest-growing oil company in the world."

Well, guess what? In the fall of 1997, Solv-Ex was delisted and headed into bankruptcy protection. A U.S. District Court judge would subsequently conclude that the company had defrauded investors through misleading press releases and shareholder letters.

The losses at Morgan Grenfell reached into the hundreds of millions. Fund manager Peter Young, seen as a star in the London investment community, lost his job but skirted jail time. As reported in *The Guardian*, he walked out of court "dressed in a cerise top, grey flecked skirt and high-heeled shoes and carrying a purple shoulder bag, after showing no emotion when he was dismissed under the 1964 Insanity Act."

Okay, the Solv-Ex example was unusual. But Asensio's right calls have been many, including his short call this spring that telecom company Winstar Communications Inc. possessed "no ability to repay or refinance its debts and that Winstar is worth far less than the amount it owes." Winstar filed for bankruptcy protection in April. It can get depressing. "There's no real defence for investors except their own due diligence and their own careful work," he says, not very helpfully.

'I'm Manuel Asensio. You belong in jail'

He calls mutual funds a "misappropriation of capital" with the dot-bomb fiasco as proof.

He recently appeared on a radio show with Steve Forbes, who said the collapse of the dot-com market was no different from investors' long-ago hyper-enthusiasm for railways and radios. "The most important thing that Steve Forbes fails to understand is that at least we were left with railroads, with radio stations. We were left with assets in place."

Asensio is sounding weary. He still faces a \$400 million lawsuit from Hemispherx Biopharma Inc., after asserting that the company's claims for a chronic fatigue drug are inflated. It couldn't have helped that he walked up to Hemispherx president William Carter at a conference and said: "I'm Manuel Asensio. You belong in jail."

"The idea that the truth can be suppressed by the misuse of shareholder funds and the justice system disgusts me to no end," he says in *Sold Short*.

Wrapping up a series of conversations, Asensio says he "has nothing to fear in trial," should the case advance that far. Still he has tempered his tactics. He has started to eliminate the "fraud" word in reports, though he sprinkles it liberally in conversation. "The acid test is we survived the onslaught," he says.

"I'm not crying. We made our buck. We made an enormous amount of money."

Illustration(s):

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SHORT FUSE: Manuel Asensio, in his office this week, draws the ire of investors and companies for short selling stock and issuing provocative news releases about it.

Category: Economy

Uniform subject(s): Corporate finance; Radio and television; Stock market and stock exchanges

Edition: Ontario

Length: Long, 856 words

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