

Short Story

Garrulous Manuel Asensio takes a vicious pleasure in trashing stocks he thinks are overvalued. His enemies say he's a big bully—but that doesn't mean he isn't right.

BY BRETT NELSON

SHORT-SELLERS TEND TO MOVE under cover of darkness, launching stealthy guerrilla raids on stocks they deem ready for a fall. Not Manuel Asensio, a combative soul whose noisy frontal assaults on his targets have made him one of the least popular figures on Wall Street. Where fellow short-sellers deliver *sotto voce* comments on their picks to a select few, he takes short positions then posts vituperative screeds on the Web site for nine-year-old Asensio & Co., a broker-dealer and hedge fund manager. Other money managers, longs and shorts alike, discuss stocks with owlish aplomb. Asensio rants about “frauds” and “scams,” sounding like Al Pacino in *Scarface*.

“Buy the wrong stock at the wrong time and you're going to lose your [expletive] money—and never get it back,” pontificates Asensio, author of a recent self-congratulatory book, *Sold Short* (John Wiley & Sons). Another familiar refrain: “People think Wall Street raises money effectively for our economy, that it's an important part of our capitalist system. It's not. It's a bunch of people that care about their apartments on Park Avenue.”

Don't think the 47-year-old Harvard Business School grad is some kind of socialist, however. “We're in it for the money,” admits Asensio, who has al-

ways worked for himself except for a brief stint at Bear Stearns. “But we're glad we're on the right side.”

A Cuban refugee who came to America at age 6, Asensio seems to relish his outsider status. Example: He wants to do away with the downtick rule, which forbids shorting when a stock is sliding. Other shorts like the rule because it keeps regular investors out of their game. Asensio also wants to do away with the rule forbidding shorts from suing their targets. Plus, he prefers to beat up on smaller stocks; his peers like bigger, more liquid issues.

Yet Asensio's zest for battle really sets him apart. He has been involved in a long-running legal fight with Philadelphia-based Hemispherx Biopharma, maker of a chronic fatigue syndrome drug that he believes is snake oil. The company angrily denies his charges and has sued him for defamation. Thus far he has spent \$4 million in lawyers' fees to contest Hemispherx's lawsuit, more than he made shorting the stock, which has fallen to \$4 from \$12 since the tiff erupted in 1998. Asensio says he has settled six other lawsuits without payment or admitting fault.

One outgrowth of the Hemispherx donnybrook has been a National Association of Securities Dealers probe of his actions, which resulted in his paying a \$75,000 fine and being forced to retake a broker's exam. He dismisses the NASD

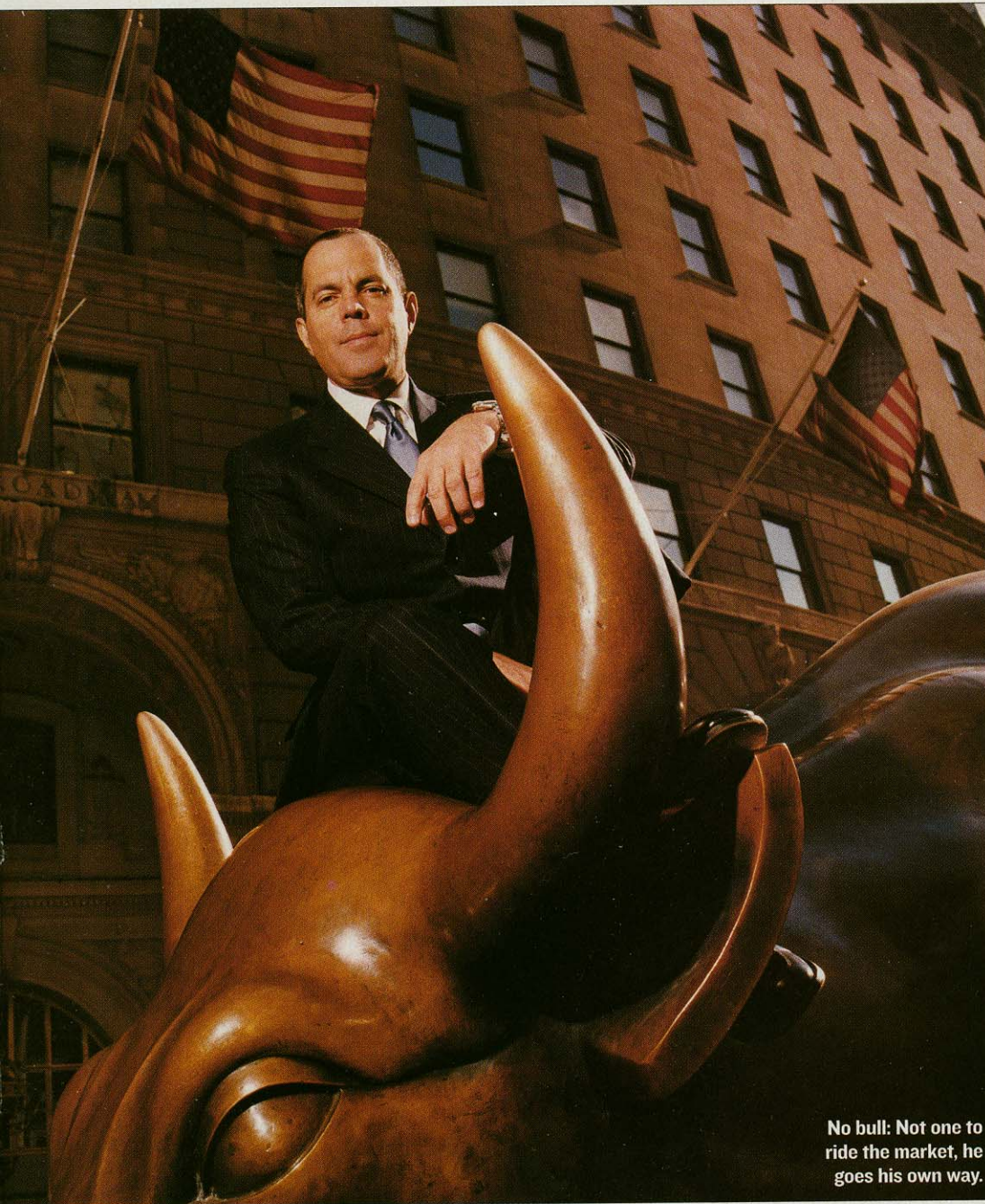
findings—for instance, that he failed to keep records of when he borrowed shares—as “alleged hypertechnical violations” and is contesting them.

Still, amid all the criticism that he's just a bully, the truth remains that Asensio has a remarkably good track record. Since 1996 Asensio has written Web reports on 27 companies—22 of which, he claims, have lost at least 50% of their value since. Eight of these are delisted or defunct. To him, shorts keep the market honest by picking off overvalued companies.

His method is to scour the market for a hot stock, then dig into its financials and interview outside experts in the target's field, trying to see if its business plan and products hold up. He doesn't care whether there's a bull or bear market occurring. Weak companies know no season, Asensio says. To those who accuse him of causing panics and manipulating prices, Asensio retorts that longs can promote with abandon, so his voice is no less valid.

Square in his crosshairs lately is \$213 million (market cap) Research Frontiers, a Woodbury, N.Y. outfit that licenses “smart-window” technology—where you can electronically dim a





No bull: Not one to ride the market, he goes his own way.

window, eliminating the need for shutters. Yet in its 36-year history Research Frontiers has never earned a dime. Its licensees have announced just two commercial sales (one for a mere \$10,000), and it survives on cash raised in stock offerings. Asensio has slammed the company in nine reports for issuing “misleading” press releases to pump the stock when, he says, “it’s clearly a zero.”

Since Asensio’s first report on it in June, Research stock is down 27% to \$18, versus a 13% loss for the S&P 500. “Asensio is trying to sabotage our busi-

ness,” says General Counsel Joseph Harary. Harary concedes it took years to build momentum at Research but insists more orders are on the way.

Now, we don’t recommend that you short anything with less than a \$300 million market cap because often the shares are scarce. Asensio, though, has several new crusades that meet our criteria (*see table*).

Like Irvine, Calif.-based Intersil (market cap: \$3.7 billion), which makes computer chips for cards that plug into laptops to connect wirelessly to other

devices and networks. Intersil has a 70% share of the market for gear based on what techies call the 802.11b standard, meaning that data gets broadcast at a frequency of 2.4 gigahertz.

Asensio thinks that rivals’ new chips for a 5-gigahertz standard, delivering 20 times more bandwidth to handle larger streams of data faster, will slam Intersil. The company admits that its new development lags Atheros Communications, which is already shipping the new chips. Nonetheless it notes that the new standard won’t be accepted globally for

Fall Guys

Asensio predicts these stocks, off their highs in a bear market, will be dropping because of fundamental flaws.

Intersil

RECENT PRICE	52-WEEK HIGH
\$34.84	\$45.50
TRAILING 12-MONTH P/E	COVER AT
90	\$10.00

Kos Pharmaceuticals

RECENT PRICE	52-WEEK HIGH
\$29.61	\$40.70
TRAILING 12-MONTH P/E	COVER AT
NM	\$2.00

Qualcomm

RECENT PRICE	52-WEEK HIGH
\$53.52	\$107.80
TRAILING 12-MONTH P/E	COVER AT
NM	\$25.00

SureBeam

RECENT PRICE	52-WEEK HIGH
\$11.45	\$19.45
TRAILING 12-MONTH P/E	COVER AT
NM	\$1.50

Verisign

RECENT PRICE	52-WEEK HIGH
\$38.73	\$146.44
TRAILING 12-MONTH P/E	COVER AT
NM	\$10.00

NM: Not meaningful because no earnings. Source: FT Interactive Data via FactSet Research Systems.

two years, giving it time to ramp up its own 5-gigahertz product.

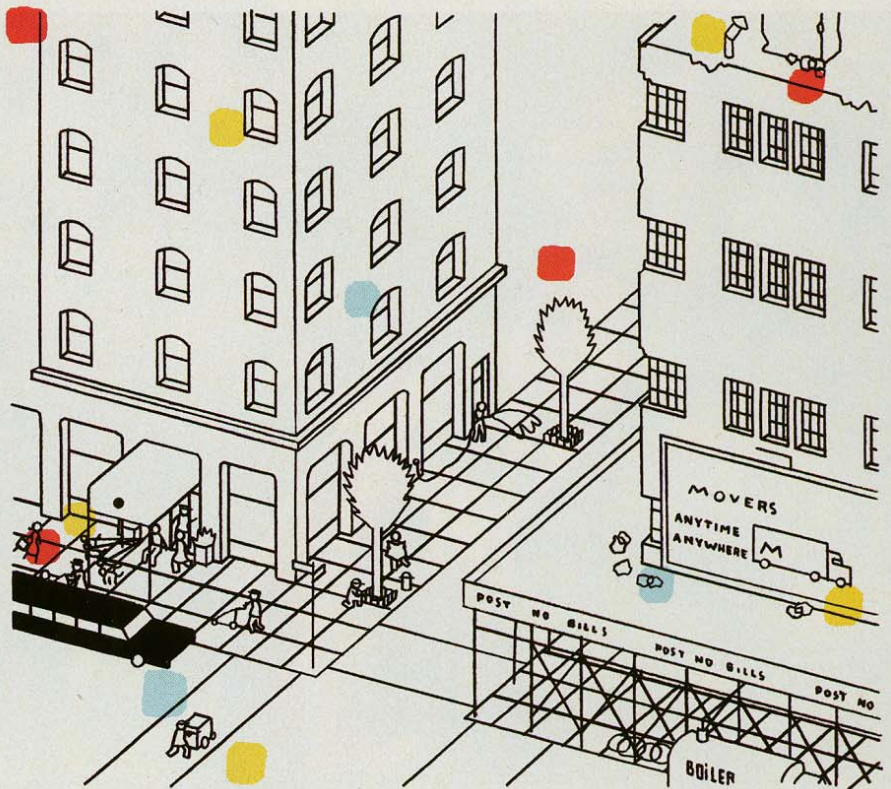
Trouble is, its basic business is hurting from new competition that has brought pricing pressures. Gross margins on 11b-based chips have fallen to 40% from 70% in two years. In October Citicorp Venture Capital, Intersil's biggest investor, dumped 14 million shares, now trading at 90 times trailing earnings.

At least Intersil has some earnings. The same can't be said of his other targets lately, not even a monopoly such as Mountain View, Calif.-based Verisign (cap: \$7.9 billion). It has a government franchise to allocate, for a fee, all 32 million U.S. Internet domain names ending in dot-com, dot-org and dot-net, and to renew them after their two-year terms expire.

Asensio wrote in May that Verisign was "grossly" overvalued at \$60, predicting weaker growth ahead. His reasoning: Name-granting growth is slowing along with the ebbing of the Internet boom. He rejects Verisign's argument that the slowdown is temporary, brought on by a purging of Web-name squatters.

Another Asensio prey is Kos Pharmaceuticals (\$603 million cap), which has high hopes for Advicor, its new cholesterol drug. Asensio says Advicor has no advantage in a mature \$10 billion market dominated by Pfizer, Merck and Bristol-Myers Squibb. Chief Executive Daniel M. Bell admits he has only 300 sales reps against the triumvirate's 12,000, but says he has a superior product that both spurs good cholesterol and lowers bad. Meantime, Kos burns through a scary \$9 million of its \$50 million in cash each quarter.

Asensio's also down on San Diego-based SureBeam (\$640 million), whose electronic beams promise to kill anthrax spores (*see story, p. 46*). He dislikes its growing accounts receivable. And he takes a flier on heavyweight Qualcomm (\$40 billion). Asensio doubts future licensing revenues from its CDMA digital technology will keep up with other wireless standards. **F**



Shaky Dividends

REITs offer lush payouts. But some of them are too good to last. Where are yields likely to tumble? Where might they rise?

BY STEPHANE FITCH

ON THE SURFACE, WHAT'S NOT to love about shares of nursing home owner Health Care REIT? At \$25, they're priced at a reasonable 15 times earnings for the 12 months trailing. This real estate investment trust pays \$2.34 per share in dividends, for a lavish 9.3% yield. The stock has been hot recently, up 62% from its 52-week low. And it's in what seems a recession-proof business; none of us is getting any younger, after all.

The problem is that this REIT and many like it are too generous with dividends. How much longer can they stubbornly hold on to the high Wall Street-pleasing payouts? REIT dividends are far from guaranteed, especially when a trust's fundamentals are faltering. By contrast, stingier REITs are in better shape to weather bad times and even hike dividends (*see table, p. 220*).

"Some REITs have high yields for a

reason," says mutual fund manager Andrew Davis—the payouts are vulnerable. From his perch as head of \$400 million Davis Real Estate Fund, which invests in REITs, he sees an alarming number of trusts unlikely to keep ladling out the bounty. In exchange for not paying taxes, REITs must fork over at least 90% of their net incomes to shareholders. Great, as long as the earnings don't decline.

A few already have sliced dividends. Take billionaire Richard Rainwater's REIT in Fort Worth. Hurt by falling demand for its office and hotel properties, plus pricey investments in cold storage and residential development, Crescent Real Estate Equities cut its earnings outlook for 2001 by 13% and its dividend by 32% in October. And after the terrorist strikes worsened the flagging demand for rooms in Marriott hotels—one, sitting next to the World Trade Center, was destroyed—Host Marriott said it's likely to pay no