FINANCIAL POST

D1

SATURDAY, JANUARY 2, 1999

Casting a long shadow on Wall Street

Short-seller Manuel Asensio makes a lot of people mad

BY AMANDA LANG

NEW YORK • As he talks, he keeps an eye on his computer screen where the numbers flash in constant motion, and at one point cuts himself off mid-sentence to grab the phone and bark out a buy order. At another point, he kicks the desk.

Manuel Asensio, president of short-selling investment firm Asensio & Co., is at this moment displeased with the price movement of one of his stocks.

Dialing a number, he asks without a greeting: "Are you talking to anybody today?" His tone is slightly menacing. "Who have you spoken to today? Don't talk to anyone." Then he effortlessly picks up the conversation where it left off, explaining the role his firm plays in uncovering what he calls "fraudulent" companies.

This is Mr. Asensio's business model, in a nutshell: Isolate what he believes is a fraud, do the detailed research to try to prove it, take a short position in the stock, and then tell anybody who will listen why he thinks the stock is overvalued. He makes a lot of money doing it, and he makes a lot of people mad.

Short-sellers are not popular on Wall Street, let alone with company management. They borrow stock which they consider highly priced and sell it, hoping to deliver it at a later date, after its price has fallen, and pocket the difference.

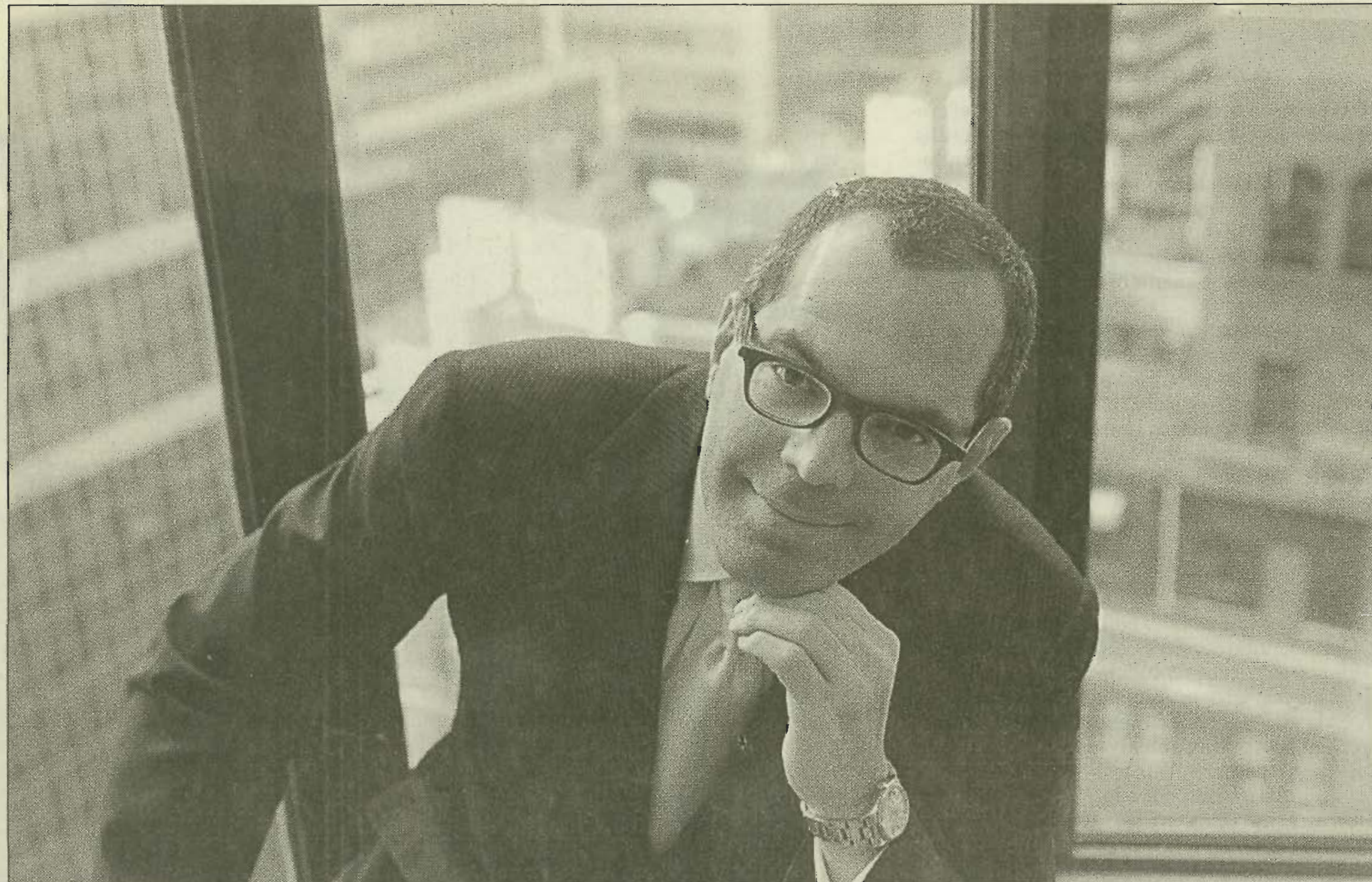
One might expect a man who makes a living bringing companies down – to bankruptcy, if at all possible – who is anathema to his peers and sued as a matter of course, to look a little less refined. But desk-kicking aside, refined is the word that springs to mind. Close-cropped hair and fashionable horned-rim glasses meet designer suit and Gucci shoes in a combination that is less underworld than visiting Italian diplomat.

Sometimes portrayed as renegades who deal in realms just this side of illegal, short-sellers like Mr. Asensio believe they perform an invaluable service to investors.

See ASENSIO on Page D6

HELAYNE SEIDMAN / FINANCIAL POST

Manuel Asensio: exposing frauds.



HELAYNE SEIDMAN / FINANCIAL POST

No stranger to lawsuits, Manuel Asensio says: "No matter how many times we do this, we are always the villain."

The short-seller who casts a long shadow on Wall Street

ASENSIO
Continued from Page D1

"We aren't saying these things because we are short. We are short because these things are true."

Perhaps, but some of the companies involved beg to differ, and are doing so in court. They and others charge that Mr. Asensio's practice of publishing his opinions is akin to market manipulation. Although he's never been successfully sued, some lawsuits are still before the courts.

Over six years in business, he has "targeted" 20 companies.

On this December day, a computer screen in his unprepossessing Manhattan office displays a legal document related to a lawsuit launched against his company — and him personally — by Solv-Ex Corp.

Mr. Asensio targeted the firm more than two years ago, and has published 27 reports on Solv-Ex. The New Mexico company says it has technology to extract oil from tar sands, but detractors say it has yet to prove it has an economically viable product.

Pressure on Solv-Ex's stock and a volley of negative reports about the company made it next to impossible for it to raise additional capital to finance its project in Fort McMurray, Alta. Solv-Ex's market valuation plummeted and it was eventually delisted from the Nasdaq stock market.

Solv-Ex recently raised $807,000 (all figures in U.S. dollars) privately to fund lawsuits against short-sellers and Deutsche Bank, and it personally names Mr. Asensio in one complaint.

Jack Butler, a former president of Solv-Ex, said in 1997 that Mr. Asensio was "misinformed and trying to discredit the company." He added at the time that this was a deliberate understatement of his feelings about the short-seller.

But Mr. Asensio makes no apologies for his role in bringing Solv-Ex low, and no apologies for trying to unearth other cases of what he calls fraud.

"These companies need ignorance" on the part of investors in order to continue to raise capital in the face of serious questions about their businesses, he says.

Anyone who tries to show a stock is overvalued "is always controversial," says John Coffee, a professor at Columbia University's law school. But short-sellers should be free to publicize their claims, he says, if they have come by the information honestly and believe it to be true.

"That is the only way you are going to get the market to adequately police and pierce through overly hyped claims by management."

There is little doubt Mr. Asensio believes his claims to be true. He says his information is based on careful and extensive research. At least three of the companies he has targeted claim otherwise. "We take an adversarial position against public companies," Mr. Asensio says. "No matter how many times we do this, we are always the villain."

And the deals are there, stacked now in boxes in the file room next door. There are the live files, including Solv-Ex, Diana Corp., Able Telecom Holding Corp., Biovail Corp. International, and Coinmach Laundry Corp.

And there are the boxes labelled "done deals," which include names like Alpha Hospitality Corp. ($9 in 1993, about $1 on Thursday), Har-Cor Energy Inc. (the stock fell from $6 in March, 1997, to $1 earlier this year, when it was acquired), and the list goes on, many of them since obtained by rivals.

The key question around short-sellers is how they came by their information, says Prof. Coffee. "There is nothing in itself wrong with being a short-seller, and if you are doing it based on a belief there is fraud going on, it could well be a public service."

In fact, the treatment of short-sellers in the market — such as the rule they can sell only on a rising share price — provides a kind of legal buffer for companies, Prof. Coffee said, the merit of which is debatable. John Dorfman, vice-president at Dreman Asset Management, also defends the role of short-sellers. Though they may be unpopular, short-sellers tend to do better research than most other market players, he says.

This is the kind of talk Mr. Asensio likes to hear.

"This is a fine point that gets lost. Market participants are taking a gamble on the future of a company when they buy its shares," he says. "When we take an adversarial position, it is a similar gamble. If we are wrong, we lose money."

Glaring at his computer screen, he grabs the phone and dials a number, still unhappy with this stock. "Don't tell me a story," he says to someone named Elliott. "Just tell me a price and an amount."

Short-sellers don't often publicize their positions, since companies can and do try to squeeze them out by driving the share price up temporarily. But valuable service or not, firms such as Asensio can get rich by playing the short end of the market.

The lion's share of Asensio's assets are in short positions, and it is there the firm gets most of its investment return. The company does not disclose how its $100-million performs, but Mr. Asensio says the performance of his brokerage account is a good indicator. It turned $1-million of equity into a $2-million trading profit in 1998.

I HAVE NO EXPECTATION THAT OUR TRACK RECORD WILL EVER BE RESPECTED

To prove fraud involves a team of six full-time research analysts who can earn up to $250,000 each. Nothing is published by the company that Mr. Asensio does not personally approve. "It's a painful process," he says. "When you see how the sausage is made, you see it's not easy."

His attempts to "prove that Diana was a fraud" cost Asensio $1-million. But at the end of the day, Asensio made between $20-million and $30-million on the position. There is no general rule on when to take profit from a position. When Able Telecom fell as low as $1, thanks in part to Asensio's research, the firm didn't cover the position, and the stock is back at $6.

"That was a mistake," Mr. Asensio allows, but "the degree of certainty on this one is so high. Able is bankrupt," so the stock should ultimately go to zero. These kinds of statements help explain why lawsuits fly like donut crumbs around Mr. Asensio's office. Able has not filed for bankruptcy. Diana was never proved to be a fraud, although Mr. Asensio claims its technology didn't work, and a promised contract didn't materialize.

The first lawsuit came from Hemispherx Biopharma Inc. Mr. Asensio says in that case the stock promotion was obvious, in part because of the involvement of individuals who have a long career of promoting penny stocks. "This was the most fraudulent company we've ever gone after, and they sued us first."

He believes that lawsuit was prompted by a television report on his firm that singled out Hemispherx. But within a short period, others had followed suit, including Solv-Ex, Biogen Inc., and Turbodyne Technologies Inc. These suits are without merit, Mr. Asensio says, and while they are a nuisance, are part of the cost of doing business.

The investment firm does buy some stock long, but it looks for companies that are undervalued, Mr. Asensio says. In a market like this one, that means companies that are in some distress.

As if in evidence, Mr. Asensio's phone rings, and with barely a greeting he issues a volley of advice to a company chairman on the other end of the line.

"Forget about raising money, you need to team up with [Internet service providers]. Don't take calls from Wall Street. You're good at building things, so build something. In three months you'll have something you can feel satisfied with."

That business dispensed with, he turns back and continues his thought: "We have influence with management or we don't go long."

Contrarian positions are nothing new to the 44-year-old. After graduating from the Wharton School of Business at the University of Pennsylvania in the 1970s, he moved to Venezuela at a time when the economy of the oil-producing country was doing incredibly well.

Within two years he was a chief financial officer, living well and married into a prominent family. But he spotted corruption and fraud among the elite of the country, and worried about long-term fundamentals.

When he left, it was at great cost — personal and financial — but history has proved that gamble to be right, too.

"Many things can change in a man or woman over time. But certain character traits are always there," he says of the pattern of his life that favours difficult calls.

There is little question that Mr. Asensio is intent on his work. The accusations of wrongdoing bother him, but is something he has learned to accept. "I have no ambitions or expectation that our track record will ever be respected," he says.

He has been called "abrasive" and "brusque" by those who know him, and at one point hands a file to a staffer who probably has at least one college degree, asking for "those little tabs" to be put on it.

The office, which houses just three on-site staff (the analysts are elsewhere), is about 100 square feet, but many brokers would like to get a glimpse of the stocks he is watching (which include Yahoo! and America Online Inc.).

The telephone doesn't stop ringing, and even in the midst of a long conversation, he has his eye on that computer screen — and no doubt on his next short position.

"Windstar is the next project," he tells someone on the line. For the sake of Windstar Energy and Windstar Resources, let's hope he's talking about a minivan.

Financial Post