GLOBEANDMAIL.COM

Famous Wall Street short seller softens his demolition man image

By MICHAEL FLAHERTY
Reuters News Agency

UPDATED AT 9:08 AM EDT

Wednesday, Sep 29, 2004

NEW YORK -- As a dedicated short seller for nearly eight years, Manuel Asensio became known as one of the most ruthless investors in the business.

While some on Wall Street considered him a bully, others saw him as protecting small investors against corporate time bombs ticking away at highly touted firms.

But the image he built as a "demolition man" may be softening. Mr. Asensio has scaled back his aggressive pursuit of troubled, typically small companies and balanced his investments with long-term bets.

"There is still beauty in finding microcap frauds. But our business model has moved away from that."

Mr. Asensio is a self-described "sub-adviser" to a hedge fund, evenly dividing its assets between short- and long-term positions. That fund is not available to new investors, but he expects to launch another balanced fund in the spring for large pensions and other institutional long-term investors in the United States.

That's a far cry from his days as a notorious Wall Street bear.

Mr. Asensio made a hefty sum by selling securities "short" -- borrowing shares and selling them in hopes that the price would tumble so he could replace them for less and pocket the difference.

From January, 1996, through October, 2003, he said, assets in his short-heavy hedge fund increased to more than $500-million (U.S.), with a compound annual growth rate of 39 per cent net of fees.

In that time, his firm, Asensio & Co. Inc., publicly targeted 26 companies. Of those, 11 were delisted, went bankrupt or failed completely, Mr. Asensio said. Their average fall in stock price was 86 per cent.

Among his targets were New York-based Winstar Communications Inc., which filed for bankruptcy in 2001, and Woodland Hills, Calif.-based Turbodyne Technologies Inc., a former Nasdaq Stock Market-listed stock that was investigated by regulators and now trades on the over-the-counter bulletin board.

Mr. Asensio has been sued by a long list of companies in several different states. NASD Regulation Inc., which oversees all U.S. stock brokers and brokerage firms, fined him after he was found liable for "misrepresentation" in one of the company lawsuits. Security guards have chased him off corporate grounds.

But those days are behind him, he says. "We are conforming our investment principles and risk management limits to meet the needs of large institutions seeking to place long-term funds within a hedge fund," Mr. Asensio said. "This will cause us to be more diversified. But we will not reduce the degree of due diligence and fact discovery that is the trademark of our work."

Born in Cuba and brought up in Brooklyn, Mr. Asensio, 49, earned an MBA from Harvard

University in the late 1970s, then went to Wall Street.

The investment boutique Asensio & Co. Inc. is no longer. Mr. Asensio now works from a one-room office on the 25th floor of a midtown Manhattan skyscraper. He shares the space with Integral Securities Inc., a broker-dealer with which he says he has no affiliation. He says he has no involvement in Asensio.com, a nonprofit entity and short-selling advocacy operation.

Among his current short-selling picks is **KFx Inc.** , a company that has patented a process to increase the quality of sub-bituminous coal.

Mr. Asensio believes that the company was late to the energy transformation game, and that it has failed to launch adequate new initiatives.

He is also short **Cadence Design Systems Inc.**, which makes software used to design semiconductors. A slowdown in the semiconductor industry, coupled with size limits of chips, is the main source of his skepticism.

But Mr. Asensio is bullish about **International Coal Group**, a private company spun off from bankrupt Horizon Natural Resources. He also is long on **Crown Pacific Partners LP**, which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in mid-2003. The company, which owns 524,000 acres of timberlands in Washington and Oregon, has been aggressively selling assets.

While Mr. Asensio admits that his work life is a lot less exciting than his days as a dedicated short seller, there is an upside to his new gig.

Going after flawed companies, while thrilling, took a lot of energy, he said, while the long side is a lot more relaxing.

"I am currently a fully independent free agent . . .," he said, "enjoying the luxury of allocating capital privately and at will."