The Delaware Bay Company LLC

HINDESight™ January 18, 2021

Fannie Mae and Freddie Mac

BUYING A DOLLAR FOR LESS THAN 25 CENTS.

Let's say you are looking to value the security of a company which is in bankruptcy or reorganization:

- The company is highly profitable and the security is very liquid with both institutional and retail holders.
- The security has a par value of $25 and is absolutely covered 100 percent from a value standpoint. The value of the underlying company is well above the security's claim in a normal capital structure.
- The reorganization could take, say, two years (could very well be sooner).
- The U.S. government has warrants to purchase 79.9 percent of the company's common stock basically for free, but your security sits above the government's warrants.
- The pedigree of 'smart money' invested in this security is Best in Show at Westminster.
- The underlying business is not impacted by technological obsolescence.
- The company is considered as necessary for national economic health.
- The company provides services to rich and poor alike but is more important to the middle and lower classes.
- The business is easy to understand and should be easy to value by institutional investors.
- The company has two of the most powerful and sophisticated financial advisors (i.e., **JPMorgan**, **Morgan Stanley**) assisting it to raise capital.
- The reorganization has already dragged on for a dozen years and unresolved litigation lingers.
- The government owns preferred stock which ranks above, but it has already been paid over $100 billion more than it invested and has committed to "restructure" its investment to facilitate a capital raise.

Again, assuming two more years (could be quicker), my 40 years of doing this tells me that a security with these characteristics should trade at roughly a 20 percent yield, or between 69 and 70 percent of par ($17).

Instead, it trades at 23 percent ($5.80).

Why?

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