

Fannie Mae and Freddie Mac:

IN DEFENSE OF THE HEDGE FUNDS (Part 2)

Their crime? They bet on America.

For every dollar they make, the taxpayer makes four.

At yesterday's hearing of the **House Financial Services Committee**, they were at it again. Apparently alarmed that the **Trump Administration** has begun to take steps to free **Fannie Mae** and **Freddie Mac** (the "GSEs") from 'conservatorship', a couple of members expressed concern that the Administration's actions had "boosted" Fannie and Freddie share prices – thus "*benefiting hedge funds*".

Their concern is misplaced.

For starters, there are tens of thousands of Fannie Mae and Freddie Mac shareholders who are not hedge funds – such as **Nicholas Isbell** of Chevy Chase, MD, who invested his daughter's college tuition fund in what had been, until up to the moment the government seized them, blue-chip, dividend-paying stocks. There are thousands of **Fannie and Freddie employees** who watched, horrified, when the government's seizure of their employers caused their 401(k) plans to plummet in value. There are literally **thousands of middle-class workers**; policemen, firemen, carpenters, electricians, truck drivers, whose retirement funds are invested in the two companies. And then there are the hundreds of community banks whose Fannie and Freddie shares virtually evaporated between when they left their offices on Friday afternoon, September 5, 2008, and when they returned to work the following Monday morning.

(One example: **Jamestown State Bank** in Jamestown – pop. 286 – Kansas.) Then there are the mutual funds, the insurance companies, and even the **Knights of Columbus** and the **Catholic Order of Foresters**. Are all these shareholders to be considered just '*collateral damage*' in order to prevent "*greedy hedge funds*" from profiting on their investments? (Many hedge funds, BTW, have been holding their shares for 11 years now.) Indeed, as one non-hedge-fund shareholder recently Tweeted:

"Somewhat ironically, it turns out the 'evil hedge funds' turn out to be the honest brokers. Their deep pockets were needed to fight a 5-year legal battle (against the government . . . without them), we mom-and-pop investors never stood a chance."

It's true that during the darkest days of the financial crisis, several large hedge funds were able to acquire blocks of Fannie and Freddie shares at fire-sale prices. As it turns out, however, it was the government which sold them the stock. Thanks to the over-the-weekend decimation of their GSE shares, over a dozen community banks no longer met minimum capital requirements and were themselves seized. Later, the FDIC, as their receiver, dumped over 30 million preferred shares on the market. As those of us who lived through those dark days will recall (the Dow had bottomed at 6,443), there

weren't many people with the courage to buy pretty much anything at the time – let alone shares of two companies which had been placed into government conservatorship. There were, however, 'contrarian' investors who believed things would get better; markets would stabilize; housing values would rebound. They were willing to step in and buy when most people (including the FDIC) were selling.

It was a gutsy call. (And, in retrospect, quite prescient.) But whether the buyer pulling the trigger was a hedge fund manager; a mutual fund manager; a pension fund manager – or simply a retail investor trading from a computer in his basement – all had one thing in common: they were betting on America.

Over 11 years have now passed since those frightening days. In the interim, the **Dow Jones Industrial Average** has increased just under 20,000 points and, as of June 30th, Uncle Sam has earned a whopping *\$115 billion* on his Fannie and Freddie

'investment'. As if that weren't enough, it's estimated that were the Treasury to exercise penny warrants it holds on 80 percent of the GSEs' common shares, it could reap yet another \$150 billion windfall. That would allow **President Trump** to claim credit for making the best deal for the American taxpayer since the **Louisiana Purchase**. Nonetheless, there are still those who believe Fannie and Freddie shareholders deserve no compensation for what has effectively been the nationalization of their companies.

That may work in banana republics and Communist countries, but not in the United States of America.

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October 23, 2019
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Additional resources:

HINDESight™ Sept. 19, 2019: [Best Deal Since the Louisiana Purchase](#)
HINDESight™ Feb. 19, 2019: [In Defense of the Hedge Funds \(Part 1\)](#)
HINDESight™ Nov. 26, 2018: [Release the Hostages](#)
HINDESight™ Sept. 4, 2018: [Ten Years After Henry Paulson's Colossal Blunder](#)
HINDESight™ Sept. 6, 2017: ["The Case of the Concrete Life Preserver"](#)
HINDESight™ Aug. 25, 2017: [Fanniegate: The Cover-up Unravels](#)
HINDESight™ Sept. 6, 2016: [The Myth of Private Gains and Public Losses](#)
J. Timothy Howard Feb. 26, 2016: [The Takeover and the Terms](#)

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