listeningin

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Dealing With Distress

Marty Sass, Distress Investing Ace, Finding Bear Market Opportunities

***Martin D. Sass**, oddly enough, is the fellow at the helm of Manhattan's **M.D. Sass Investor Services**, and major domo at a raft of related if diverse investment vehicles, all of which can be broadly lumped into the "alternative investment" category. And for which, in the aggregate, he's responsible for shepherding upwards of $7 billion. A seasoned and savvy long-term investor with a penchant for reinvigorating values others have left for dead, Marty is also a tireless analyst of neglected niches, with a keen and cunning knack for consistently making bucks and more bucks. Without risking his, or his investors' necks. He shared some of his hard-earned investment wisdom in a couple of recent conversations.*

KMW

Even before September 11th, as I tried to think of someone who had to be finding the gathering economic and profits distress, if not to his liking, at least not inconsistent with turning a profit—
You thought of me immediately!

You do have a way of turning distress into opportunity—
And it happens to be true, unfortunately, for some people and companies, that this is a very tough environment. Tougher than Wall Street analysts, certainly pre-September 11th, were willing to admit, in terms of corporate earnings just collapsing. But the economy was really soft and defaults were going through the roof *before* the terror attacks. The only thing that was keeping things going, I think, was—and is—the amazing ability of some firms to do secondary offerings of convertibles and the like. The convertible arbs have soaked up a lot. And the hedge funds.

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Which may turn out to be what does in a lot of the hedge funds, especially if Barton Biggs is right about

the hedge fund bubble.
Certainly bear markets show who really is hedged and who is not; who's correlated and who's not. Weed them out.

You were pretty decidedly in the bear camp when I spoke with you pre-September 11, but you've recently written a piece for clients that sounds a lot more convinced that we'll see a V-shaped recovery.
Well, it still seems trivial to discuss the markets and the economy in the wake of those horrific attacks, but they are the backbone of the U.S. What the terrorists did was make a weak economy, credit and stock markets weaker. While that probably means a steeper drop in GDP in the fourth quarter, and a delayed recovery, it also means a stronger recovery next year.

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What makes you so sure?
I'm not. There are obviously risks to everything I'm saying. The war on terrorism isn't going to end quickly. The huge imponderable out there is what happens to consumer and investor confidence if there's another terrorist attack.

The question, unfortunately, is probably "when," not "if."
And another terror attack certainly is not priced into the markets. You just can't predict it.

As much as the Attorney General tries.
How much of an impact that would have on confidence obviously is an imponderable that nobody can evaluate. All you can say is that if we get a repeat attack, that pushes out the recession, lengthens it, deepens it. The turn is going to come slower and the markets are going to get hit again. That uncertainty, to me, is a very big caveat. But it can't be predicted. So post-September 11, I've been encouraging clients to do the same things I was pushing before then, only more so: Stepping up their exposure to alternative investments that are not correlated to the U.S. market; that can provide attractive absolute returns, as a diversification tool and as a way of cushioning risk while keeping returns at an attractive level. In any event, I'm much more at home with portfolio management than with economic prognostication, and I will say that I'm not betting the ranch on the V. I like to make conservative assumptions, and what's right obviously varies from

client to client. But you do need some sort of scenario to be grounded in. And right now, for us, it's the V. I do believe the environment has changed, post-September 11. And while the course of the war on terrorism is very uncertain, it's pretty clear what the impact the fiscal and monetary responses to the disaster will be: All of that stimulus should produce a stronger economic recovery in '02.

If Congress ever gets its act together on the fiscal part of the equation.
I think they will. There's enough of a consensus that we need a big stimulus package to help turn this economy around. The end result is going to be something on the order of $150 billion and that's going to be 1.5% of GDP.

The question is whether it'll be in the form of spending that will really stimulate economic activity, or just more of the same old pork barrel.
Obviously, no one knows exactly what shape it's going to take at the end of the day. And that will be an important variable. But another thing that is helping is the rebound in the stock market, assuming it holds.

Which is no small assumption.
Clearly, but we're up more than 1,000 points from the low. The surprise move by the Treasury to eliminate the 30-year, even if a little gimmicky, should help housing, the corporate market and even stock valuations, since lower yields imply higher Ps. A lot depends how much of the lower rates get passed on. Mortgage bankers have a pretty strong demand picture. Meanwhile, the continued sharp reduction in inventories in the third quarter was encouraging, adding fuel to our thesis of a V-recovery. Inventory rebuilding is likely to help in turning the economy. If inventories just decline at a slower pace, that will lift GDP. So when we couple lean inventories with very strong fiscal stimulus, continued monetary stimulus, and low inflation, we see a V.

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Yet you're not wildly enthusiastic about stocks here—
There's a huge risk in stocks. What concerns me about the equity market, just generally, is that valuations are full. Nonetheless, while I'm not ready to say that Sept. 21's panic lows were *the* bottom for this cycle, I

suspect one is likely to arrive within 3-6 months, and given normal lead times, that would mean that we'll see an upturn in corporate profits in the first or second quarter of 2002. At the same time, as I said, our equity valuation model, even given fairly generous growth and interest rate assumptions, still shows the market at best only fairly valued, *not cheap*. P/Es remain too high. And we expect interest rates to rise sharply when the recovery becomes visible next year. That's the message we see, in fact, in the dramatic steepening of the yield curve, post-September 11th: a forecast that an economic recovery and a more inflationary environment are coming, just as the inverted yield curve last year correctly forecast the ensuing recession.

Rising rates? All the talk lately has been about how low Greenspan can go in his rate cut limbo.
That's in the short-term. Nobody's focusing long-term, which is where our concern lies. Lower rates here a wonderful thing, bond funds are doing great and all that, but we're trying to stay a little ahead of the curve in anticipating that, if we're going to get this V, then interest rates are going to spike up again, along with inflation.

Which is why you've also warned clients not to be seduced by higher yields into extending maturities or edging down the quality spectrum?
Exactly, when it comes to income, everyone always wants more. Which is why, with short-term rates at historically low levels, the siren song of higher yields will be very difficult to resist. But while this seduction lacks the glitz of the internet bubble, it could be just as lethal. With interest rates at current levels, interest income provides very little cushion against portfolio losses brought on by rising interest rates or credit smash-ups. The volume of defaults taking place was huge before September 11th, and that has only exacerbated. I would have said that defaults would have peaked at around a 10% level pre-September 11th. Now I'm looking at junk defaults probably peaking up at around 11%.

Still, aren't you getting ahead of yourself? The Fed and the Treasury are giving every indication that they're determined to do "whatever it takes" to keep this recession from getting nasty. Which at the

very least means continued monetary ease.
Maybe. But that's because our concerns are long-term in nature. When you buy 10- or 20-year securities (much less a now-vestigial 30-year) you have to believe either that you can time the bond market and trade short-term, or that the prevailing level of rates will prevail for the holding period. Unfortunately, we aren't skilled enough at trading or at forecasting rates to risk capital on a giant bet that interest rates will stay low. Which leaves us in the position of assuming that they will eventually rise after this recession runs its course.

Just because what goes down must go up?
Not really. Some of the reasons I can point to include the aging of America. Older folks consume more and produce less. Then there's the fact that the peace dividend disappeared into the debris of what was once the Twin Towers. So did the federal budget surplus. Increased security adds to cost, but not to productivity. Essentially, every unit of production will cost more in the war time future than it did during "Pax America." How much more, I can't predict. But it is conceivable that when the economy returns to healthy growth, the Fed and investors will become concerned enough about such risks to demand a higher yield premiums as compensation. A disturbing way to visualize this is that whether the economy makes a U- or V-shaped recovery, interest rates are more likely to make a V.

So you have no shortage of real-time reasons to stay conservative. But unlike many investors today, you also had some early experience with bear markets that probably still exerts some influence—
Believe me, having started my firm right at the top, in March of 1972, with the Dow at 1000 heading to 577 in October in '74, I really know what a bear market is like. Especially because I started as an equities-only special situations manager.

What great timing! I started at Dow Jones in the spring of '74, and for the longest time thought we only wrote about declining earnings, layoffs and bankruptcies.
So you remember those days. It was gruesome, it didn't matter how much work you did or how cheap an equity looked, it got cheaper. It was ugly. The one fortuitous thing I did, having a pretty strong self-preservation

instinct, was to send a note to my clients at the end of ’73, telling them that because I didn’t understand what was going on I was going to two-thirds cash unless they authorized me in writing to the contrary. A lot of people thought that was the most horrible thing I could possibly do. Investors asked, “Why should I keep my money with you?”

“*And now, ladies and gentlemen, with a very, very funny and uplifting story, the President of the United States.*”

They could hold cash themselves.
“Why should I pay you a management fee to manage cash?” It was brutal, even if you were right, and even if you conserved assets as we did in ’74, just because we were scared. By being heavy in cash we came out fine, on a relative basis, that year, but it was painful anyway. Ironically, then, when I finally turned bullish, in late ’74, I lost my biggest account. They fired me for wanting to get fully invested! So you can’t win. But an experience like that teaches you how to weather these things. Don’t get discouraged if you hit a couple of bumps in the road, hang in there and you’ll win.

That experience also got you to broaden your investment horizon, didn’t it?
Clearly, that experience is what got me convinced that I had to get into some products that could do well in a savage environment.

Which is what lead you into distress investing?
I actually had been doing it for some time before I started my own firm. I had started and headed up the Argus Research special situations division, way back in the mid-’60s. I had been an analyst there and started the division to do anything that was off the beaten track, basically looking for special situations investments, turnarounds, restructurings, spin-outs, spin-offs, break-ups. Back in those days, there were very few people putting out research on that. One reason, frankly, was that there was such a low volume of distressed activity that it wasn’t worth a lot of attention. But I had always had my eye on it. The special situations that turned up here and there always fascinated me because I’m basically a deep value investor. And I’ve found it in a number of areas that just aren’t well-known. For example, we recently bought a tax lien that was in default, through our tax lien fund, in Asbury Park, NJ.

Sounds exciting. If you’re a Springsteen fan.
Actually, it is. We have a dedicated team here that goes to auctions and buys these tax liens. We’ve done well with it, it’s a very conservative yield-oriented fund. Small, only $150 million. But it’s not a big market. Anyway, in doing that, we discovered an opportunity to buy all the waterfront development rights in this admittedly distressed New Jersey shore town, at 50 cents on the dollar, by buying tax liens.

Either you see redevelopment potential or you really like trashy sand.
Yes, Asbury Park had been in decay, as you probably know, since the late ’60s. But it used to be a boom area. And if you look at neighboring communities, there’s Deal, which is a big, upscale, high-end, very religious Jewish community, on one side, and Ocean Grove on the other. Anyway, I think it’s potentially a fantastic ocean-front, beach community. It’s a horror now, a ghost town, but that is because a developer converted it to a ghost town creating vacant land all along the water.

Vacant oceanfront? Within an hour and a half of NYC?
Isn’t that unbelievable? It’s one square mile of waterfront, 65 miles south of Manhattan that we have

just captured for a $6.5 million purchase of a $12 million tax lien. Then we decided not to just try to collect on the liens but actually go ahead and develop the area. So we bought $40 million worth of mortgage loans owned by a bankrupt estate for $7.4 million. Then we bought another $10 million of mortgages for $2.1 million. By purchasing all the outstanding liens and assigning the mortgage loans, we now have all the development rights to Asbury Park waterfront. The real estate guys don't understand how we did it, but that's the nice thing of about having specialized expertise in an area, like tax liens, that most people don't look at. So now we're taking possession of properties up and down the waterfront, mostly vacant land and some interesting old buildings, a convention center and amusement facility with a carousel and all of that. And we are talking to developers about revitalizing this place. It's a very exciting situation to me.

And you're using your tax lien fund to do it?
That's how we found out about it, but then our real estate group, which is actually part of a separate corporate structure that we call Real Estate Capital Partners, also got involved. It has about $2 billion in assets under management. We've done things like this before, buying distressed real estate in Houston in the '80s. We bought 48 garden apartments that all were in default and had been taken back by the insurance companies that had financed them because there was no money available down there when the oil market collapsed. That proved a very good investment, because we bought luxury class A apartments at $15,000-20,000 a unit. Anyway, those are the sorts of distress situations that are more and more available. That we are leaning toward more and more. We have 25 people now in our real estate group; 110 people in all in the firm. That seems huge, to me, having started as a one-man band, but when I look at these Wall Street firms with casts of thousands, I feel like a peanut. We compete with some of those guys, but we have niches, like tax liens. There are only a handful of guys really doing control-oriented distressed investing. What I'm looking for are areas where I don't have to be dependent on the economy, or the market, where I can just generate absolute returns. Before my initiation in the '73-'74 debacle, I wondered how

anyone could own anything but equities. That was the *only* place to be. But then I realized that I'd better add some more legs to the stool or the stool would collapse. We probably employ a dozen different strategies now, really just trying to have strategies that are not correlated with each other, in areas where we can capture little inefficiencies for competitive advantages.

Distress situations are your big thing, and you've mentioned tax liens and real estate. What other sorts of alternative investments do you pursue?
Overall, we have about $6.5 billion under management, about $1.4 billion of that in the distressed area, which we call Resurgence Asset Management, so that we won't be tagged as just vultures picking on the dead. We like to focus on enabling the resurgence of these companies. We could easily invest double that amount in distressed situations here, although that's unfortunately academic because we don't have money being thrown at us to invest there. But that wouldn't force us to take more positions, just to buy more of the same deals, because we like to focus on buying control positions. And being able to buy 75% of a deal, instead of 66%, would just strengthen our negotiating positions. Anyway, we also have a fund of funds that doesn't invest in our own funds, so we don't have conflicts of interest. It has positive year-to-date returns, albeit not as dramatic as the up 28%, net of fees, that that our distressed fund is turning in—it's having a phenomenal year. The way that we're able to do all these different things, by the way, is by hiring dedicated professionals in each of these areas. We have a significant portion (about 18%) of our portfolio in convertible arbitrage. That's been a really attractive place to be, and I think will continue to be. Strong double-digit returns year-to-date. We have several different types of event-driven strategies. International Risk Arbitrage is the most attractive of those at the moment. Our domestic risk arb fund also has had positive returns this year. We have heavy exposure to long-short funds that are almost market neutral with an emphasis on value stocks. Both in the U.S. and in Europe. I like those strategies. I think value has a lot of staying power. Even though the overall market is fairly valued, it's an attractive strategy to focus on buying significantly

undervalued situations and shorting the overvalued ones. And REITS are still interesting. You've just got to determine which are the strong and the weak markets because some real estate markets are vulnerable in this economic environment. But there are some real nice opportunities to get attractive yields and discounts to NAV in REITs. So there's a whole panorama of alternative investments that we look at. All very research-driven.

Is that another carryover from your early, formative bear market experiences?
You really want to go all the way back?

Yes, because so few investors today have any memory of what it's like to try to survive, much less prosper, in a real bear market. Even 1987, which was terrifically scary at the time, in retrospect was all over in a flash.
That's right. The 1987 crash was a horrifying couple of days but then it was over. Try coming in every day for 18 months, like I did, from March '72 to October '74, and watching the market fall practically every day. It seemed to me that it did drop every single day I came in; it was brutal. Even being in cash it was horrible, and the one-third of the portfolio that was invested—because you had to have something on the table—got beaten up daily. It was tough. Even the people who are lionized now as the era's greatest investors, people like Buffett, were having bad problems. There just weren't a lot of places to hide.

Of course, history doesn't repeat exactly, so this bear market isn't accompanied by runaway inflation. There hasn't been an oil embargo—
But there are some parallels. It looks like we are getting a synchronous global softening like in that '73 -'74 period. And you've had the internet bubble burst, like the small caps of the Great Garbage Market did after their 1969 peak Everyone talks about the "new economy," but history does repeat itself, just in a slightly different fashion. Back then you had the Nifty Fifty and that's kind of analogous to the big cap tech stocks.

In the sense of institutions piling into the "safety" of the largest caps—
Exactly. Going from the "risky" small cap names to

the “safe” big caps at 100 times earnings—

Do I detect a note of irony in your voice?
There are a lot of lessons I think can be learned from all of that. One of them is that out of adversity comes opportunity, I always look for that in every market. I learned that lesson in my very first job in Wall Street. I started as a junior analyst in the research department of Ira Haupt & Co. back in 1963. It was a medium-sized brokerage firm, pretty well-known at the time. But it went bankrupt. All of the partners' equity was wiped out, because of one bad investment decision. They had backed this character, Tino DeAngelis, Do you remember that name?

The salad oil scandal?
That's it. The American Express Salad Oil Scandal. I watched my firm melt down completely as a result of backing this guy. But the experience showed me that good research can uncover frauds like that. It was an accountant who found that the salad oil wasn't in the tanks by drilling into the bottom of one to check for oil, instead of doing what most people did, which was put in a dipstick from the top. Because oil rises. And several opportunities came out of that. Our friend Warren Buffett made a fortune buying American Express shares when they were distressed by that huge liability—and the stock doubled the following year. It was also a good thing for me too, in the sense that from Ira Haupt, I went to Argus, where I really learned how to research companies and got involved with 13 different industries over time. Saw a lot of things happening in cycles that tended to repeat. One of my first industries that I really got excited about was color TV. Fewer than 5% of U.S. homes had color TV sets, so it was somewhat analogous to some of these new tech ideas these days. We rode those stocks, recommended every single one of them, until one day I got a tip from a taxi driver on my way to see the CEO and CFO at Motorola.

A tip from a cabbie?
The cab driver who picked me up at O'Hare airport on the way to Motorola told me that he had just been laid off at Motorola, along with everybody in his plant because of excess capacity of color TV sets and tubes. That was the beginning of the bust in color TV. I was just lucky to have met this guy, but it

shows you how you get the best research from people down the line, by doing a little more questioning. Because after he spoke up, I really probed him and found out about how much excess capacity there was. This was a guy who had worked in the quality control department in the color TV tube facility telling me they had an inventory of over a million tubes and nobody on Wall Street knew that. I put out a sell recommendation on the whole group. Motorola's CEO, of course, didn't want to see me after I told the CFO what I thought I knew. He wanted to throw me out of the office, threatened to sue me. But that was the kind of great insight that you can get by doing research.

Some things never change—
I also got a great lesson in the benefits of diversification at that same time. Since I was following all the tube manufacturers, my next appointment after Motorola was to go and visit the head of a company called National Video. It was a hot company at that time, Motorola's biggest outside supplier. I said to the chairman, "Given the problems in the television industry," (which he acknowledged, after I showed what I had learned) "Why don't you diversify your company? Your stock is selling at a ridiculously high multiple, why don't you use that paper to buy something else and diversify?" Know what he said? "I'm just too busy!" He went bankrupt about six months later, I think. National Video was my first short sale, the stock was over 100 and went to nothing. Those cycles just keep repeating, you've just seen it in the internet and in technology, in telecom.

And your best defense is good research?
What I learned from all of this is, first of all, is that one has to be grounded in an understanding of value and stick to the discipline of measuring intrinsic value in every investment. Never get away from that. Then you don't get caught up in the so-called metrics of the internet, as an example.

But also, by definition, you'll miss a big part of any future manias, or even plain old bull markets.
Right. Or, if you're going to play them, you're going to do it very gingerly, understanding when you're playing this greater fools theory, and trade like that.

Personally, I prefer to miss them, because it's very hard to tell when the music stops. I'm not saying you can't do it, it's just that I'd rather stick with fundamental values. If you can consistently compound your money at say, a 20% rate, that's extraordinarily attractive, and you don't have to survive being up 150% and then down 75%. The math of losses is just so horrendous. If you're down 50%, you have to double, just to break even. And that's very tough.

But going for consistent returns isn't as easy as it sounds, either.
Sure, but one way that I like to minimize the downside is through adherence to value, because if you're buying a dollar for fifty cents or less, *eventually* you're going to get that dollar. As long as it is growing in value, you really, over the long-term, can't miss. The other way I like to do it is through diversification among asset classes. I break my portfolios down into four categories, most of the world only breaks them into three broad categories. The common ones are stocks and bonds. Some people, like me, think cash is another asset class; a great way of minimizing risk in adverse climates. It's not the worst thing in the world to have some strategic cash at times like this. It gives you buying power. When things blow up, you have the cash to take advantage of it.

Yet most Wall Street strategists are recommending that investors be very fully invested here. Whom do they think will be buying down the road?
They're always fully invested and they always say, "Buy on weakness," but with what? I don't believe in using leverage to buy stocks. You can leverage your investments with the type of stocks you own, if you want to get a little more turbocharged, go to a more turbocharged stock. But I just don't see using leverage. As a buyer of distressed situations, I've learned that it's always the leverage that gets them in the end —and allows me to buy things at ten cents on the dollar. They had a sound business or sound investment, but lost it due to leverage.

Leverage magnifies the downside to a greater degree, somehow, than it does the upside.

And it is causing a lot of distress right now because there is so much debt. I'm seeing distressed debt opportunities beyond any magnitude we've ever seen before in American history and that's giving us the opportunity to buy distressed securities at big discounts. More are emerging practically every day. Which is good for us, because the fourth part of my asset allocation is alternative investments, especially including distressed situations, not correlated to the equity and bond markets, so you get real diversification. Our distress funds are up on the order of 28% this year, net after fees, and it has nothing to do with the stock market, it has nothing to do with the bond market, it's the restructuring events that are triggering the returns.

Clearly, you're active in a lot of niches. Which look most attractive to you here?.
The tax liens look very interesting on the conservative side. Our typical tax lien fund is kind of boring to most people, but to me, it's interesting, with the market making lows like this, to be able to make 12.5% or so a year for your investors, net after fees, which is what we've been making on our tax lien funds. Then there are the more aggressive opportunities, like we backed into with the Asbury Park real estate, through the tax liens, gathering real estate at a discount. And as I say, the distressed debt area is seeing a proliferation of supply today that is dwarfing the capital available to invest in that area. That huge imbalance of supply and demand has made for significant dislocations from value, prices at big discounts to intrinsic value. That's clearly interesting. Also attractive are the truly market neutral long/short hedged equity funds.

I'm cynic enough to doubt such animals truly exist.
Well, I think we've found a team—we'll see, because I'm still doing my due diligence on them—that in a very disciplined computer model-driven way is doing it in a truly 100% hedged fashion. There are some other players doing it, but their returns are not that exciting. These guys have been generating about 16% net after fee returns. It may be premature to judge, I'm just seriously looking at it now, But so far, I like what I see.

They're letting you peer into their black box?
I've got a couple of whiz kids here in mathematics who understand this, not me! Some of this gets pretty far out, but they're pretty impressed with what they've seen so far.

But what you're actively raising more money to invest in are distressed debt situations?
We have a third private equity fund for distressed situations in the market currently, because we can absorb more capital—in part, because of the way we prefer to invest in distress situations, by taking control.

Which is the best way to avoid being stuck with the short end of the stick in a workout.
That's a good way to put it. We find that the best way to maximize the return and control risk is to be in a position to work inside the company with management to enhance value, to develop the exit strategies and to execute on them, so being in control is really important, at least for us, as a way to optimize returns.

You must have a cast iron stomach to work so closely with so many lawyers.
It's tough. Fortunately, we have a great 85-attorney team, headed by a top-notch bankruptcy lawyer, who deals with all the other lawyers, so I don't have to have that stomach. That's how, on the distress side of the business, we've done 52 control deals over the last 12 years.

The way things are going you can probably double that total in half as long.
There are going to be a lot of deals, but we like to limit our portfolio to 20-25 names. There are only so many that you can stay on top of at any given time. And we're long-term players. Our typical holding period is 4 years. But our longest-held investment is Seaman's Furniture. We've been in there since '91, and we just bought Levitt's and merged it with Seaman's, so it looks like we've got a few more years to ride that one.

Still looking for a return?
Oh, we're not just sitting on the investment, we've taken out four times our capital in dividends in the

interim. But why get off the horse when it has kept compounding at over 30% a year? I'm happy to stay with that. Especially when you can pay yourself dividends and get your capital out.

Are there any fresh deals in the distress area that you find particularly attractive?
In some of these cases we're restricted, so I have to be a little cautious. But I'll share with you some names we've been involved with here. One that's been hitting the headlines, but we're keeping a pretty low profile in, is Nextwave Telecom (NXLC), where the U.S. Court of Appeals not long ago unanimously upheld Nextwave's position, and reversed the FCC's cancellation of their licenses.

Throwing the whole industry into an uproar.
Exactly. It's been pretty interesting. Then more recently we've taken a very active role in the reorganization of the senior secured bank debt of a company called Washington Group International. This company was created as a major $5 billion revenue engineering and construction company through the merger of Morrison Knudsen and Raytheon Engineers & Constructors. We have become the largest holder of the bank debt, are on the bank debt steering committee and have been in a proactive control position since the inception of the reorganization, which they filed in May of this year.

There are lots of distressed telecoms. Are you involved there?
No. To be interested in a distress situation, we have to see one or both of the following: Cheap valuation relative to EBITDA (and these telecom companies don't have EBITDA in many cases, or even the hope of it) and/or discounts from tangible assets. And the telecoms by and large don't have tangible assets, unlike Nextwave where we had an identifiable value because there was an auction of the licenses and they paid $16.5 billion. They put a price tag on it, so we could see what the value was, if we won the litigation. In other words, it really is a litigation play at the end of the day because we knew what the valuations were.

I could argue that that valuation was highly influenced by bubble psychology.

That’s true and we assume that the valuations were inflated. But it was real money transacted, it was a real deal. Even after we discounted those valuations dramatically, though, it still came out as a very compelling prospect because the market wasn’t according it any value. The basic premise has to be that there are undervalued assets there worth salvaging.

Let’s end on that optimistic note. Thanks Marty.