Clark Street Value

Posted by Clark Street Value at 10:00 AM

Year End 2012 Portfolio Review

Dear Partners and Friends,

The Clark Street Value Fund returned 15.9% net in 2012 versus a 16.0% gain for the Russell 2000 Index. Since inception, the Fund returns 19.4% net versus a 14.4% gain for the Russell 2000 Index. The Fund's net exposure at year end was approximately 50%, which is in line with our typical net exposure. Our top 10 holdings represented approximately 60% of the Fund's assets at year end, which is also in line with our typical concentration. The Fund's top 10 holdings at year end were as follows:

	Ticker	Cost	Value
1	[redacted]	8.0%	9.0%
2	[redacted]	6.0%	7.0%
3	[redacted]	6.0%	6.0%
4	[redacted]	5.0%	6.0%
5	[redacted]	5.0%	5.0%
6	[redacted]	5.0%	5.0%
7	[redacted]	5.0%	5.0%
8	[redacted]	5.0%	5.0%
9	[redacted]	5.0%	5.0%
10	[redacted]	5.0%	5.0%
	Total	55.0%	58.0%

Current Portfolio Update:

As usual, I think that interesting ideas flow into the portfolio from some of the more prolific practitioners highlighted in the blogosphere. Presented in alphabetical order:

- Jim Chanos's short thesis on Sino-Forest (TSO) continued to pay off for us in the year. We covered our short in the mid-$20s, and we still have a small position. We believe that the company will ultimately be found to be a fraud, with the majority of its assets not existing. We believe that ultimate proceeds to TSO shareholders will be approximately $0/share, but the timeline is uncertain. We continue to short Sino-Forest's bonds, which we believe are even more overvalued than the stock.
- Dan Loeb's activist campaign at Sotheby's (BID) continued to pay off for us in 2012. We purchased our position in the mid-$20s and sold it in the $40s. We believe that Sotheby's is still significantly undervalued, and we wouldn't be surprised if Loeb's campaign ultimately results in a sale of the company at a premium to the current stock price.
- Carl Icahn's campaign at Netflix (NFLX) was highly profitable for us in 2012. We purchased our position in the low-$50s and sold it in the $70s. We believe that Netflix's stock still offers a compelling risk/reward, as we believe that the company's long-term prospects are significantly better than the market's current expectations.
- Carl Icahn's campaign at Yahoo! (YHOO) was also very profitable for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Yahoo! is still significantly undervalued, as we believe that the company's long-term prospects are significantly better than the market's current expectations.
- We purchased a new position in Western Asset Mortgage Capital (WMC) in the fourth quarter. WMC's principal business is to buy and sell Agency and non-Agency mortgage-backed securities (MBS), and to earn the spread between the interest earned on its MBS and its cost of borrowing to finance its MBS portfolio. We believe that WMC's book value is materially understated, as its non-Agency MBS are carried at fair value, but we believe that the market is discounting the value of the non-Agency MBS because it is a small, illiquid market. We believe that WMC's book value is worth at least $25/share, versus a current price of $17/share. We believe that WMC's management team is highly competent and shareholder-friendly, and we like that they own a meaningful stake in the company. We purchased our position in the low-$20s and sold it in the $25s.
- Bruce Berkowitz's Fairholme Fund (FAIRX) continued to be a large value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Fairholme's portfolio is significantly undervalued, and we like that Berkowitz's incentives are well-aligned with those of his shareholders. We also like that Berkowitz's long-term track record is very strong, and that he has a long-term investment horizon.
- Eric Sprott's and David Lee's proposal to take Canada's Canfor Pulp (CFP) private was a small but profitable position for us in the fourth quarter. We purchased our position in the low-$20s and sold it in the $30s. We believe that the proposed transaction is fair to Canfor Pulp's minority shareholders, and that the company's long-term prospects are better than the market's current expectations.
- Lee Cooperman's Omega Advisors (OAEGX) continued to be a small value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Omega's portfolio is significantly undervalued, and we like that Cooperman's incentives are well-aligned with those of his shareholders. We also like that Cooperman's long-term track record is very strong, and that he has a long-term investment horizon.
- Eric Mindich's Eton Park Fund continued to be a small value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Eton Park's portfolio is significantly undervalued, and we like that Mindich's incentives are well-aligned with those of his shareholders. We also like that Mindich's long-term track record is very strong, and that he has a long-term investment horizon.
- Leucadia National (LUK) was a small value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Leucadia's portfolio is significantly undervalued, and we like that Leucadia's incentives are well-aligned with those of its shareholders. We also like that Leucadia's long-term track record is very strong, and that Leucadia has a long-term investment horizon.
- Third Avenue Focused Credit (TFCVX) continued to be a small value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Third Avenue's portfolio is significantly undervalued, and we like that Third Avenue's incentives are well-aligned with those of its shareholders. We also like that Third Avenue's long-term track record is very strong, and that Third Avenue has a long-term investment horizon.
- Vulcan International Corporation (VCAN) was a small value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Vulcan's portfolio is significantly undervalued, and we like that Vulcan's incentives are well-aligned with those of its shareholders. We also like that Vulcan's long-term track record is very strong, and that Vulcan has a long-term investment horizon.
- Wesco Aircraft Hardware (WAH) was a small value-add position for us in 2012. We purchased our position in the low-$20s and sold it in the $30s. We believe that Wesco's portfolio is significantly undervalued, and we like that Wesco's incentives are well-aligned with those of its shareholders. We also like that Wesco's long-term track record is very strong, and that Wesco has a long-term investment horizon.

Thank you for your continued support and confidence in 2012. We wish you all a healthy, and a happy and prosperous New Year!

Regards,

Clark Street Value

Posted by NYC at 1:00 PM 0 comments
Labels: Sotheby's, Sino-Forest

401 comment(s)

Anonymous December 31, 2012 at 3:14 PM

Thanks for the and Happy 2013 wishes.

Let us say, optimism, what people say is possible, the top 1 - 5 most interesting?

What's your Valuation on FAIRX and CFP?

Reply

+ Replies

Clark Street Value December 31, 2012 at 3:59 PM

Sorry, I don't do any detailed stock analysis.

Reply

Anonymous January 1, 2013 at 12:13 PM

Happy New Year!

What's the Fairholme AUM size?

Reply

Anonymous January 1, 2013 at 3:24 AM

Wishing you a happy and prosperous New Year!

Reply

Anonymous January 1, 2013 at 3:24 AM

I would say MAN, WMC, MDCO (or big insider) (related of the big Dodd-Frankers) like ORN, ORMP (no - big insider selling), CFP (Canadian Pulp - Sprott and Lee), Yahoo!, Netflix, Sotheby's, Sino-Forest, Fairholme, Omega, Eton Park, Third Avenue, Leucadia, Vulcan, Wesco, Berkshire Hathaway, Loews, Fairfax, Pershing Square and Icahn Enterprises.

Reply

Anonymous January 1, 2013 at 3:24 AM

Sorry, I meant Leucadia, I meant Loews (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Fairfax (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Berkshire Hathaway (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Pershing Square (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Icahn Enterprises (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Third Avenue (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Vulcan (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Wesco (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Omega (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Eton Park (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Fairholme (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Sotheby's (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Yahoo! (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Netflix (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Sino-Forest (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Carl Icahn's Netflix (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Dan Loeb's Sotheby's (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Jim Chanos's Sino-Forest (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Eric Sprott's and David Lee's proposal to take Canada's Canfor Pulp (CFP) private (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Lee Cooperman's Omega Advisors (OAEGX) (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Eric Mindich's Eton Park Fund (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Bruce Berkowitz's Fairholme Fund (FAIRX) (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Third Avenue Focused Credit (TFCVX) (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Leucadia National (LUK) (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Vulcan International Corporation (VCAN) (the other big one that I have had some winning when I had the time to research them). Sorry, I meant Wesco Aircraft Hardware (WAH) (the other big one that I have had some winning when I had the time to research them).

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Clark Street Value January 3, 2013 at 8:59 PM

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BasedShark January 6, 2023 at 4:04 PM

What odds do you actually put on the ADES deal breaking? Wouldn't that be a massive positive for the stock price?

Reply

Replies

MDC January 6, 2023 at 4:09 PM

Not sure how to handicap that, but low. Mainly because the poison pill is still in place, despite this transaction nullifying the NOLs.

Reply

MDC January 10, 2023 at 3:04 PM

One of my predictions is already wrong, not going to be a quiet year for Brian Kahn/FRG:
https://www.wsj.com/articles/vitamin-shoppe-owner-franchise-group-considers-going-private-11673383894

I'd be pretty disappointed with $30-$35 in a MBO. Hopefully this is just a ploy to talk the stock up a bit, give them a better currency to make an acquisition (CONN in the WSJ story).

Reply

Replies

Anonymous January 15, 2023 at 3:54 PM

Kahn can't help himself. He got lucky with KSS. Should keep his head down and fix ongoing operational issues at his company instead of looking for more furniture retailers.

Perhaps once he proves himself with actual results for FRG, he might actually be able to use his stock as currency...

Anonymous May 12, 2023 at 10:57 AM

Well I am definitely unhappy about the 30 dollar offer. I hope others join me in voting against this one. The equity really deserves a much higher price than this.

MDC May 12, 2023 at 11:36 AM

Yes, I'm disappointed. Doubtful the go-shop brings anything forward.

Anonymous May 31, 2023 at 11:26 PM

June 10 approaching without news, you’re likely right no other offer will emerge.

A litigation law firm has apparently started an investigation, does anyone have any experience with this?
https://julieholleman.com/?p=3012

Anonymous May 31, 2023 at 11:44 PM

There’s a whole bunch fishing for shareholders
https://kaskelalaw.com/cases/franchise-group-inc/
https://www.bespc.com/cases/FRG
https://schallfirm.com/cases/franchise-group-inc/
https://www.kleinstocklaw.com/mna/franchise-group-inc-merger-investigation-form

MDC June 1, 2023 at 8:34 AM

It's tough for another bidder to enter here, FRG is a one man thesis, no one else would put all these businesses together. And then FRG/Kahn crapped the bed, maybe semi-intentionally had a kitchen sink quarter to kill the dividend and force shareholders hands here. Definitely a take under, I assume he'll make out very well on the deal 3-5 years from now.

Reply

Aton January 12, 2023 at 8:07 AM

As far as I remember, you have a 20% long-term IRR target so the year is not bad until IRR is here:) it seems that your strategy tends to underperform in down years (take 2018) but kills S&P in 'normal' times, so maybe that's just the nature of things

NGS may be interesting - their largest shareholder Hoak recently called for 'strategic alternatives', including a sale, primarily pushing for merger with another Hoak entity Nova Compression (which would, I think, keep the NOLs). Direct competitor CSI Compressco is trading at 7.5 EV/EBITDA, NGS is at 6x EBITDA (28% upside though there are some quirks in their adjusted EBITDA calculation) and 0.66 tangible book despite having almost no debt.

Andrew Walker recently covered SLG - office reits surely are not the best business to be in but 9% dividend yield and 50% discount to book for a class A properties in NYC seems too extreme

WSR looks like mini-STOR trading at roughly 8% cap rate while divesting assets at 6% (they've got a management change recently). STOR was taken private at 6% cap rate

And maybe KSS should be back in the watchlist? FRG wasn't exactly stupid offering $50 and maybe they'll return to the idea of acquiring KSS after MBO. The real estate is there and there is almost a $1 bln inventory buildup above historical average - releasing some of it will bring cash close to 25%-30% of current market cap

Reply

Replies

MDC January 12, 2023 at 9:17 AM

Thanks, yes 20% is sort of the unofficial long term goal where I think it is worth it to continue, invest the time, etc. I don't really like that I have underperformed in down markets, part of that might be holding on to some of my "legacy" positions well past the event/catalyst because of taxes. This is a taxable account for me, in a tax deferred account I would probably have less volatility.

Thanks for the idea list. Office is still tough for me, my unoriginal general thought is it takes a lot longer to reposition a real estate portfolio in real life than it would seem to a common stock investor. How long have the mall REITs been talking about repositioning, new types of tenants, using big boxes as warehouse space, etc. Think a similarly long shake out is in store for office. I believe in some level of return-to-office, but small changes in demand with static supply could really crush the office REITs. Unoriginal thoughts I know.

Good point on KSS, might be worth keeping an eye on.

Reply

Anonymous January 22, 2023 at 1:00 PM

I love reading your commentary. You seem to have a couple of investments focused on the senior living industry. Are you familiar with DHC? We were buying their baby bonds DHCNI and DHCNL at prices in the 40% of par range in rage latter half of December. Not really interested in the common equity, but the debt seems to offer the prospect of good returns. Also, Third Avenue Real Estate has been buying the bonds and has an interesting take on them. See here:
https://thirdave.com/wp-content/uploads/shareholder-letters/Archive/TAREX/2022-Q3-TAREX-Shareholder-Letter.pdf

Reply

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