



### WHEN LUCK RUNS OUT

When I wrote opinion piece 25 “The Mighty Quinn” back in October 2007 I had no idea of what was going on between Sean Quinn and Anglo Irish Bank. I had no idea that Sean had taken the biggest risk of his life by speculating in the shares of Anglo. At the time I made the point that because he was media shy I did not know how he had made his decisions. In reference to his decision to build the Slieve Russell Hotel I even went as far as saying the following:

*I don't know if he was a visionary or just lucky all I know is that I admire him for having the guts to try it in the first place.*

With the benefit of hindsight I think I can now say that he was lucky rather than a visionary (but I still admire him for taking the risk).

When I wrote the following I really did not realise that he would lose everything within four years:

*He was obviously a man prepared to take a risk, a true entrepreneur, a man prepared to lose everything that he had worked so hard to build.*

I wrote that in the past tense because I believed by that stage he was so wealthy he would never take risks on a scale that could result in him losing everything and I did not realise that his nature was such that he would be prepared to take ever larger risks. Naively I thought that a billionaire would not feel the need to become a multi billionaire. Oh silly me!

I also described my own experience of looking for professional indemnity insurance and how grateful I had been when I had found cover with Quinn Insurance. Ironically in 2008 a former colleague of mine mentioned that he had found cheaper insurance through a Dublin broker. Quinn Insurance was not prepared to match the 80% lower quote that the broker found me and I therefore moved my insurance away from them. I have therefore avoided being personally caught up in the insurance company difficulties. (It is with some irony that one of the biggest problem areas for Quinn has been losses incurred on professional indemnity contracts sold to solicitors in the UK.)

Having admired what he did in the past I have to admit that the events surrounding his downfall have raised all sorts of doubts in my mind. I am sure there will be a lot more facts to emerge in the future but if the news reports are to be believed the financial regulator found unacceptable structures within the insurance company. If I had continued to have insurance with Quinn I would have wanted reassurance that they could pay out on claims. I would not want to discover that the assets that were supposed to cover a claim were in fact pledged to protect the cement business or glass business or radiator business or whatever else he was doing. Unfortunately that is

what the regulator seems to have found and what upsets me most is that media shy Sean suddenly found the need to go on television and claim that the insurance company was fine. There are two clips of this on YouTube so anyone is free to go and listen to what he said. Unfortunately he appears to have wanted to claim that it was all a bit of a mix up and down to one actuary being more conservative than another. He appeared to want to deny that there could possibly be any problem. If he had been prepared to admit the full extent of his difficulties I might have been able to maintain a certain degree of admiration for the man but this leaves too many doubts in my mind.

I would also like to contrast the Sean Quinn situation with that of Niall Mellon. I have never mentioned him in any of my opinion pieces but for readers that do not know him he is a property developer that has ended up in a bankruptcy situation. (He is also well known for his charity work building houses in Cape Town)

Last weekend I heard him on the Marian Finucane Show (June 26<sup>th</sup>) and his interview is a complete contrast with that of Sean Quinn. Niall admits he is broke and is going through the process of selling all his assets including his two homes and he accepts that he has to start again with nothing. (The interview is available on the RTE site or an older interview is available on YouTube).

I wish him all the best because he made a mistake and is now having to live with the consequences. His luck ran out but he appears willing to accept it.



Niall Mellon

The situation that both Niall Mellon and Sean Quinn created for themselves must be used to highlight the risk of using leverage. Borrowing large amounts of money meant that they become very vulnerable when something went wrong. Value Investors generally believe that leverage should only be used in extraordinary circumstances. If Niall and Sean had listened to Warren Buffett they would still be wealthy men to this day. When I studied corporate finance in UCD one of the basic studies was a case study around the dangers of using leverage. Unfortunately we have far too many case studies close at hand that can be used in Irish universities for many years to come.

Let us hope that corporations and governments also learn the same lesson!

I certainly have become more cautious about investing in companies with significant leverage and luckily there are plenty of companies out there with very little by the way of borrowings. In this way I hope to avoid depending on luck because as Sean and Niall found out, luck can run out.