FREE KIC NO. 78 JUNE 12

BYE BUY BLOXHAM

In 2005 the New York Times described Ireland as the "Wild West of European Finance". This was before the collapse of Anglo Irish Bank, Irish Nationwide, Quinn Insurance, Custom House Capital and the most recent revelations at Bloxham Stockbrokers. I hate to think what the New York Times might call us now!
I find myself particularly perplexed by the financial irregularities at Bloxham because I know a number of people that worked there whereas I do not know any of the senior people in the other institutions listed above.
According to the information currently available the problems at Bloxham are being placed on the shoulders of the former finance partner Tadhg Gunnell. The other partners are reported as having had no knowledge of the problems. According to the Irish Times report:
"The partners relied on internal reports provided to them by Mr Gunnell, together with audited accounts provided by Bloxham's external auditors Deloitte, none of which indicated any inaccuracy in the firm's stated capital position

The managing partner Pramit Ghose is somebody I have met on a number of occasions and he has a CV that has all the right credentials. He is a Mathematics graduate from Trinity College Dublin, a qualified actuary and as the following piece of marketing material shows, he has won a number of investment awards:

Having such a great CV and being thought of as being a bit of a "guru" would make me hope that Pramit would personally analyse the Bloxham accounts just like he would analyse the accounts of any share they were interested in buying. It would therefore appear that the fraud would need to be pretty sophisticated in order to have gone undetected for so long.

I really hope that the regulator will publish a detailed analysis just like he did with Custom House Capital because it will be fascinating to hear how the finance partner managed to deceive the four times winner of the Fund Manager of the year award.
I am particularly interested in how trading losses could be shown as an asset. I say this because on June 1st the Irish Times reported the following:
Mr Gunnell told the partners there was "an accounting misrepresentation" of trading losses of €2.6 million, said Mr Dempsey.

If this turns out to be true and there were trading losses of €2.6m that were somehow accounted for as an asset it raises a number of issues.

- What did the traders and / or head of trading tell the Managing Partner about how they were doing? Did they think they had accumulated significant losses? If they knew they had major losses did they not wonder how they were able to absorb them and meet their capital requirements?
- What did the head of Compliance do in regard to monitoring of trading losses and capital adequacy?
- What did the head of Information Technology say about the reporting systems?
- Should the Managing Partner be checking the accounts to see if there are actual assets (cash or investments) to match the assets reflected in the accounts?
- What role if any did internal and external auditors have?

Obviously these are the questions that the forensic accountants brought in to investigate this collapse are going to try and answer but unfortunately we have to wait and see what they will uncover.

The Irish Times also reported that the losses related to two other areas:
A pre-payment of €1 million in April 2011 to cover the partners' income taxes and repayments of National Irish Bank loans to the partners of €1.7 million were never recorded as having been paid out, the court was told.

Once again it will be fascinating to learn how such large amounts could be hidden.

This must be a tough time for everyone involved because on top of their financial difficulties there have been other problematic issues. First of all there are outstanding legal issues in relation to the sale of a complex financial product and secondly the performance of their main fund has been struggling.
In relation to the legal issues the Irish Times had the following to say:
Bloxham is being sued along with US bank Morgan Stanley for €20.5 million in claims from investors over the loss of almost all of their investment in the so-called Saturn bonds sold by the firm.

In relation to performance problems the following table shows their most recognised fund has not had a good five years and even though statistically this is not a long enough period to reach any conclusions it must be a cause for concern for most clients.

FUND PERFORMANCE (as at 31st May 2012)

	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (YTD) (%)
New Ireland Davy High Yield Equity Fund	-9.60	-37.20	21.70	16.40	-3.00	4.00
Benchmark	0.40	-37.80	30.20	20.60	-3.40	6.10

(the Bloxhan High Yield fund has been renamed the Davy High Yield Fund)

These problems at Bloxham appear to have given Davy Stockbrokers a major opportunity as they were able to step in and buy the asset management business at what appears to be a relatively cheap price. I presume a number of other fund managers might have been interested in buying the business but would not have been in a position to react within 48 hours as appears to have been required in this situation.

Davy must be hoping that Pramit quickly gets back to winning ways and does not end up being caught up in a messy, long drawn-out resolution of the Bloxham situation. If performance does not pick up soon we might see clients begin to withdraw money.

In conclusion I just want to say good**bye** to Bloxham and I hope it is a good **buy** for Davy thus explaining the heading for this opinion piece – Bye Buy Bloxham.