

## WEST VIRGINIA WISDOM

Tom Jones lived in Nitro, West Virginia all of his life, fifth generation Scotch-Irish, one of the "mountain people." These folk pretty well kept to themselves and with all of the natural resources of their mountain home, they prospered, not quite as well Wall Streeters, but pretty good for not knowin' how to read.

Coal, natural gas, pulp, paper, and wars, one couldn't ask for more. A chemical company even popped up in the seventies, locating along the Knawah River, it was a big resource conglomerate, called Tri Nitro Technologies, more affectionately known and listed on the New York Stock Exchange as TNT.

Over the years and generations, through a little farming, accumulating neighboring lands, and a nice untaxed beverage business, the Joneses became rich, at least by Nitro standards, but few outside the Family knew about their untold wealth. Many family members sooner or later worked for Tri Nitro, as did Tom. It was pretty good duty, much better than the mines, trees, or farming.

As was often the case in these, shall we say, tight knit mountain Scotch-Irish families, there were lots interesting gene pools with all kinds of offspring. Since there were Jones girls as well as boys, not all bore the Jones family name, but all were "still family." One such outlier was a boy named Ezical McBride. Of course he was known as Zeke. Smaller than his cousins, smarter than any, and had a very perverse imagination and sense of humor. Zeke was Tom's twenty-fifth grand child and perhaps his favorite; Old Tom told stories and Zeke made them up, both entertaining the entire Clan at holiday on the mountain family events.

Another outlier was Tom's oldest son, who was, of course, Zeke's uncle. This was Thomas Jones V, affectionately known as "fifth" in Nitro. He was the family lawyer, a county judge, head of the Local Republican Party, there were no Democrats of course, and heir apparent of the Jones clan.

Well, in 1998 Tom Jones retired from Tri Nitro at the mandatory 65, he didn't really know how old he was, nor did anyone else as birth certificates were in family records and not something the government or corporations had any access to.

Same year, Zeke went off to West Virginia Institute of Technology in Charleston. His high school guidance counselor, a lady from HEW in Washington had arranged a full scholarship for him at MIT, but that was in Boston and the family didn't like Boston, damned yankees and Democrats. Zeke by the way, had become a math wiz and liked to read, more strange outlier stuff. By the time he was a sophomore in high school, Zeke was doing all of the tax returns for the family, a full time job for most senior partners at DeLoite. Surprisingly, everyone's tax went down and those at TNT got sizable refunds from over withholding. It seems as if the private family businesses in beverages, coal, and natural gas were fountains of cash flow but even larger fountains of tax credits, depletion allowances, education grants, and natural disaster funding.

Zeke was well-liked at WVIT. He tested into his junior year in the first semester of the first year and settled into getting his PhD in quantitative analysis. Smart and secure, Zeke actually had two body guards, football players of course.

Nitro, the town, was more or less unaware of the rest of the world, news eventually reached, and big news was now coming in rather quickly. They even found out about the terrorist attacks of 9-11 by evening next day. TNT people from the local plant to Wall Street headquarters were elated, things like this were very good for business. The next decade, say 2002 through 2012 was very, very good at TNT; they even rode out the financial crisis of 2008 without much disruption. Tri Nitro Shares went down a little, but came back stronger than ever. Commodities and natural resources were immune to these financial shenanigans .

It was during this first decade of the new milenium that Zeke graduated with his doctorate, and of course most of Nito attended graduation and could not wait for him to open a hospital on the mountain!. But rather than accepting any of the many offers from Goldman, Morgan, Deutshe Bank or the like, he returned home to Nitro. His two body guards came along, the Family Business was much more interesting than pro-football and actually more profitable, for linebackers anyhow.

Old Tom grew older by twelve years, thought he was now about 80 or maybe 90', didn't matter much as he was feeling better than ever. He enjoyed the family, particularly from his rocker on Sunday mornings when they all visited after church at his home.

And Fifth Jones was now the Chairman of the West Virginia Federal Home Loan Bank Board, chairman of the County Republican Party, Deacon of the Pennecostal Church of Nitro, West Virginia, and on the Advisory Board of the Department of Alcohol, Tobacco, and Firearms. An outstanding member of the community.

Now, believe it or not , In 2007, a hedge fund was formed in Charleston, yes Charleston, West Virginia's had it's own Kanawah Valley Natural Resources Hedge Fund. Even more surprising, the "maybe octogenarian" Tom jones was its largest investor, not an officer or director, too old he said, so just a "silent partner". Wall Streeters had little or no interest in Charleston, West Virginia, of all places, hardly a center on finance or market making. But a few of those folks in Pittsburg, Steubenville, Cleveland, and Salt Lake City were investors, as well as the Chinesse. The Fund raised just a billion dollars to start up, most of it "local" and most of that in Nitro.

The CIO, chief investment officer and titular fund manager, was a very well regarded academic, one James Murray, the President Emeritas of the West Virginia Institue of Technology. His assistant in the management was a recent graduate of WVIT, a bright kid named Zeke something or other.

In it's start up years of 2007 through 2010 performance was good in the few "up quarters", but very good to outstanding in the down or bear market periods. They concentrated on stocks in the energy related commodity related industries, things and companies familiar to the the great West Virginian investors like Jim Miller and Bill Friedlander. When things looked bad, they even learned how to make money selling short, a strange application or use of money betting on bad things, a concept hard to understand until you actually did it with "real money." Then it was like

magic! Almost like collecting taxes from the rich or avoiding those taxes in the beverage business!

Zeke had been applying his Quantitative Analysis Doctorate and using opinion research which helped in trend analysis, but soon came upon a sub set in the discipline, studying and reading about investment outliers, synthetics, and derivatives. Sort of math guys with just numbers and formulas making money, big money out of thin air on small price movements. Stocks moved around, up and down, but the really big markets, not generally advertised or popular with average investors were commodities, currency, and bonds; and these three were more often than not correlated with one another, and by significant amounts! He also learned about leverage, such a simple concept and so much financial potential.

Markets were very good in early 2014, recovery from the fiasco of 2008 was complete, interest rates near zero, and the energy commodities, oil, gas, and coal were relatively robust. But the guys at Nitro, not management, but the men in the mines, the shippers, the salesmen, and in the finance department felt differently; "something, perhaps a lot of things," were not right. Like guys hunting in the mountains, there were strange "small animal signs," the winds, the rain, just some "feelin's." They were also worried about their jobs!

Such talk was a big part of breakfasts after church at the Tom Jones Family compound. What's goin' to happen to our savings, the Nitro profit sharing plan, those stock options some of us had. Our big position in the Kanawh Valley Hedge Fund. But the only ones not worried were Old Tom and young Zeke, they just "smiled", but we're silent.

During the spring of 2014 and into early summer, Zeke, still not yet 30 years of age, was actually the chairman of the investment committee of the Fund and Old Tom was in reality the de-facto Chairman, although neither appeared in the SEC filings. After all, most of the fund, now over a billion dollars, was mostly Jones Family money, but disbursed over 500 different investment entities or investor names, who were shareholders in The Kanawh Valley Fund, some in the Nitro Profit Sharing Plan, others in 401 K's at the local bank, and still others special purpose partnerships and LLC's created by Fifth.

Commodities had long been the mantra of the Fund, so the switch from long positions to shorts, and then synthetics appeared to be just "smart guys" understanding the markets, however, most of the outside shareholders were mystified, miffed, many of them withdrew their money.

At the Fund investment committee meetings in April through August of 2014, Zeke first "educated" the members in a discussion of what "Shorts" are, then "synthetics" and on into "derivatives", what happens when things go down and how you make money in bad times, why things that "look-like" the underlying or major thing, act like it, but are less likely to show up in transaction records, and how other things move in sympathy to or even in an exaggerated manner.

The next step, Zeke explained was how a 1% move could yield 25 or even 50% gain in but a few days, days not months! Some of the guys quipped, "like a 100 to one long shot fixin' at the race track!" But Zeke, "how do you fix this stock market race? ! ?"

Zeke replied, "that's the beauty to it, they'er fixin' it for us ! Those dummies on Wall Street." They're all just greedy and followin' one another off the cliff!

By mid-June the guys at Nitro got pretty good confirmation of their feelings, senior management at TNT was real "sweaty", sellin' some of their options whenever the "window" was open, canceling orders, getting cancelled on the other side, slowing deliveries, and they laying off the third shift in the mines, and shutting down some of the pipelines.

All Zeke needed to do was the keep selling into the stock market, shifting from long positions to short, fist in the usual stuff like shares of Royal Dutch or BP, then selling the drilling and exploration companies, and so on. He usually bot six month puts, first at the money, then gradually some one year puts at various strikes price way out of the money. Coal companies were even more attractive shorts, more problems, but were harder to sell or short, they weren't too deep. But shorting the commodity, that was a different matter! The real prizes turned out to be the shale oil businesses which were real specs over the past few years, all having risen wildly, they were in weak hands and would cascade downward on any bad news; after all, the USA is now energy self-sufficient! This was just like a candy store, an Zeke was still but a kid. But a damned smart one.

It all hit the fan in July, August, September in 2014 as the price of oil declined from \$115 a barrel to 100, to 80, and on down to 50 in just a few months! Do you have any idea how big the highly leveraged return in a small investment of \$500 million, just half of the Jones Family net worth, made in 2014 and 2015 in a perfectly diversified, almost all in short positions in energy related stocks, commodities, and Asian currencies, inside a licensed fund, with most off the shareholders tax free or tax deferred.

There weren't even any newspaper reporters around in Nitro or Charleston to tell this wonderful story to an investment crazy Wall Street lawyer. Nitro, West Virginia? The Jones Family? Hillbillies !

The Knawah Valley Hedge Fund dissolved in 2016 as most of the remaining shareholders need a new truck.

Now I ask you, is this a fraud? Or just the wisdom of West Virginia! By the way, Zeke still has his bodyguards, but their new SUV is bullet-proof.

William T. Sena

November 30, 2015