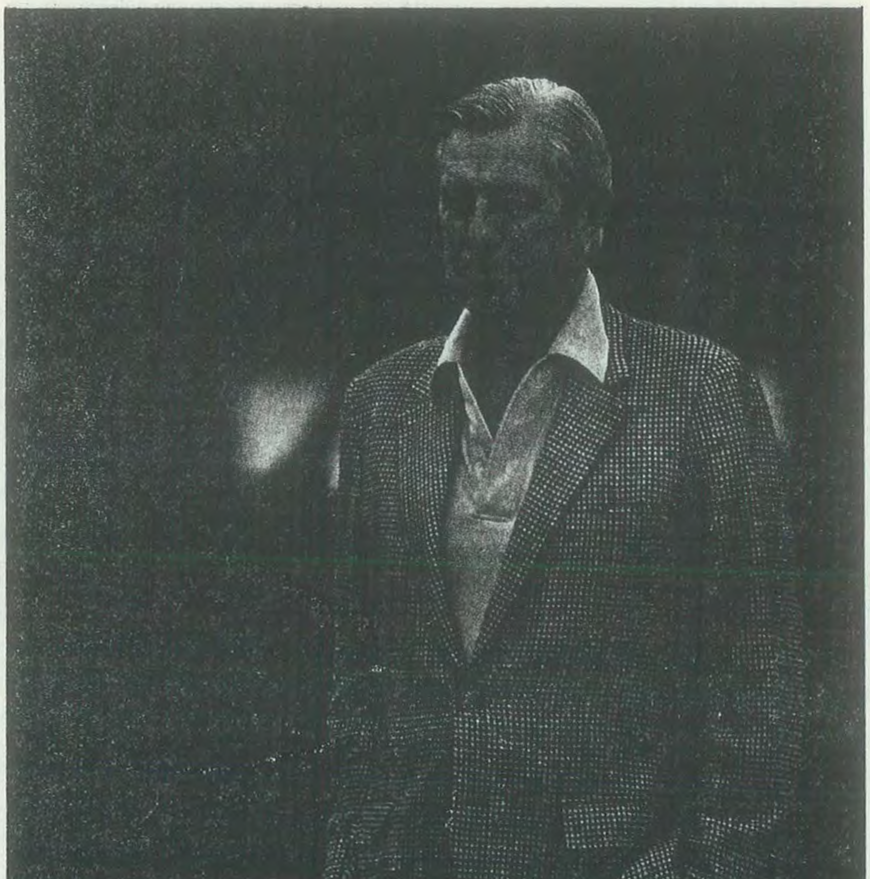
The Money Men

Deltec got into Latin American debt early and got out early. If it gets back into foreign lending, it will probably be just when everyone else is trying to get out.

Don't stay with the crowd



José Fernandez/Woodfin Camp

Deltec Chairman Clarence Dauphinot Jr.
From meatpacking to merchant banking.

By Matthew Schifrin

"THE LIST OF FOREIGN defaulters is almost exactly the same today as it was in the late 1930s," says Clarence Dauphinot Jr., founder and chief executive of Deltec Panamerica S.A., an investment company. He adds: "Only back then the debt was public, and today the banks hold it."

Some investors are destined to repeat the mistakes of the past. Dauphinot, who at 74 has a Wall Street résumé going back 50 years, is one who probably won't repeat them. Indeed, he is one of the few long-standing participants in the Latin American debt market who can be philosophical about today's crisis. His company, at one time one of South America's biggest investment banks, is largely responsible for introducing international banks to the Latin creditors now in trouble. Dauphinot, however, was fortunate enough to get out in the mid-Seventies.

Now a closely held investment and merchant bank run from Lyford Cay in the Bahamas, Deltec distributes its $70 million in net assets among an international collection of stocks, defaulted bonds, real estate, and oil and gas companies. It is currently making a play in small U.S. savings and loans—and keeping an eye on the trading opportunities that will surface as defaulted Latin loans become publicly traded discount issues.

The firm doesn't have a large following. About 100 investors hold its thinly traded shares, which show $22,000 each in net asset value and most recently traded at about a 25% discount. Among the shareholders have been a handful of big names in investing, including the late Robert Kleberg Jr. of King Ranch and Frederick Klingenstein, chairman of Wertheim Schroder & Co. John Templeton, who works across the street from Deltec's modest colonial office, has put some of his own money in one of the firm's subsidiaries, Deltec Holdings, which invests in Brazilian real estate. The investors have done respectably but not spectacularly well, with a 15% average annual return over the past decade (measured by net asset value), against the S&P 500's 15.7%.

Dauphinot got his start in the investment business in 1935, when Kidder, Peabody's Albert Gordon, later chairman of Kidder, hired him out of Princeton as a runner and then promoted him to trader. In the late 1930s Dauphinot made a killing for Kidder buying up the heavily discounted, defaulted bonds of Chile, Brazil and

Hungary and selling them back to the borrowers when they refinanced. He also actively traded telephone and utility bonds with buddies Salim Lewis of Bear, Stearns and Gustave Levy of Goldman, Sachs.

Dauphinot expects to get another crack at this kind of trading—provided the banks are willing to take the 38% to 96% writedowns necessary to unload their bad Latin American loans on the public. He sees value in some of the paper. "I think that Mexico is doing the right things," says Dauphinot. "They have done more than any other Latin American nation to handle inflation. They have been very constructive about investment from abroad. Mexico is also an interesting play on oil and gas over the next five years."

After World War II Kidder sent Dauphinot to Rio de Janeiro to drum up a South American capital market. Soon several Wall Streeters, including Gordon, Lewis and Levy, staked Dauphinot to $150,000 to form Deltec Panamerica SA.

Deltec did a brisk business as intermediary between Latin debtors and large U.S. and European banks. By the early 1970s Deltec was responsible for participating in and syndicating around $50 million a month in Latin and Eastern European loans. Sometimes by going door to door in wealthy South American neighborhoods, Deltec raised several hundred million dollars in equity capital for electric utilities, Brazil's largest department store, Kaiser Steel's Argentinean operations and an auto factory. Deltec also made good money buying up distressed, European-owned South American sugar and rail companies, restructuring operations, and reselling the firms to domestic investors.

After merging a Deltec subsidiary in 1969 with NYSE-listed IPL Inc., Dauphinot controlled a meat and banking empire with cattle ranches and slaughterhouses in North and South America and Australia, and investment branch offices that spanned the globe from Bogotá to Hong Kong. The idea was to sell the foreign cattle and real estate to local investors.

But Dauphinot didn't move fast enough. In 1970, as Deltec was about to close on the sale of its Argentinean meat-packing operations, a military junta confiscated the property as well as real estate, food processing, sugar producing and financial assets, $125 million worth all told. Deltec is still hoping for a restitution settlement.

The government's victims weren't only the foreign capitalists. Argentina's long history of economic chaos has turned its once rich and promising agricultural economy stagnant and crippled it with debt. The expropriation brought this home to Dauphinot, but not to the commercial banks that followed him into Latin America.

Not long after Deltec's Argentina troubles surfaced, so did a squeeze on its Latin lending. During the 1970s Deltec's own commercial bank clients invaded Latin America and no longer needed Deltec's intermediary services. "The spreads became much too thin, and the bankers were making huge long-term commitments," says Dauphinot.

By 1978 Deltec had completely pulled out of Latin lending and begun liquidating the public entity in order to refocus its business on merchant and investment banking. The closely held parent, Deltec Panamerica, invested some of its $28 million share of the liquidation proceeds in special situations, such as securities of bankrupt and troubled REITs.

Deltec's current strategy is to take sizable positions in small companies, not enough to have to pay a premium in a tender offer but "enough so that management will take you seriously," says Arthur Byrnes, Deltec's New York-based head of U.S. operations. Lately Deltec has been eyeing oil and gas companies, the bankruptcy bonds of LTV and Public Service Co. of New Hampshire, and savings and loans in the U.S. "We believe there are too many independent thrifts in the U.S.," says Byrnes. "There are tremendous economies of scale to be gained through mergers." One of its selections: Home Federal Savings & Loan of San Francisco, selling at 90% of book value and 4.6 times earnings. Deltec has 24% of Fort Collins, Colo.-based Home Federal S&L of the Rockies, which lost $645,000 in 1986 but earned $1.6 million last year after Deltec installed a new president. Deltec has since received two buyout offers for its stake.

This is global investing the way it should be practiced. You don't buy foreign stocks just because they were up a lot last year, and you don't overstay. Says Dauphinot, "If everyone else and his brother is investing where we are, we usually go into something else." ■

The Funds

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High road or low road?

By Ruth Simon

LOOKING FOR A FUND with lots of tax-free income? You might be enticed by high-yield municipal bond funds, which invest in "junk" municipals—tax-exempt issues that are unrated or rated lower than BBB by Standard & Poor's or Baa by Moody's.

High risk, high reward, or so goes the thinking. The problem is that plenty of investors have jumped into these funds, which tout yields 50 to 100 basis points higher than those of general muni bond funds. There are now 26 high-yield muni funds, with $12.4 billion in assets, up from 11 funds in 1984. And with more funds chasing after a smaller supply of junk munis, says Smith Barney municipal bond analyst Barnet Sherman, "there simply is not enough good-quality, high-yield paper around."

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