

Monday 19th December 2011

United We Stand, Divided We Fall ... Spectacularly

First Up: Correction

In my last up update I accidentally wrote the Committee of Creditors (COC) meeting went from 10:30am to 4:30pm when in fact it ended at 2:30pm. It was a long 4 hour meeting but it didn't end at 4:30pm. My apologies.

So Where Am I

It's been a while since my last update and in it I indicated I was going to let you know where I wanted to focus my energy going forward.

In a nut shell it's my preference to use my position on the COC, my contacts and my connection with you to help facilitate a smooth administration for Deloitte with the goal of achieving both an early distribution and a timely final distribution to end our involvement with the administration of MFGA.

By "smooth" I mean helping to remove any and all speed bumps (complexity) that Deloitte encounter - and the biggest one is deciding upon the methodology for determining the final settlement calculation for positions open at the time of Deloitte's appointment and how to manage any shortfalls in settlement collections (the recovery of margins for the same said open positions).

Chris Campbell (Chris) in his latest Notice to Clients on 14 December 2011 identifies the issues as "valuation", "pooling" and "recovery" and describes them as complex.

The Biggest Risk

Unfortunately I was unsuccessful in my attempt to draft a white paper or discussion paper on the options available for determining the settlement calculation and how to deal with any collection short falls. Please accept my apologies.

The paper's objective was to capture each opinion/view on how to deal with both issues. I wanted the paper to show that there were many and contradictory views. In previous updates I had labeled the two main opposing views as being from the "passive" (all cash with no open position) and "active" (open positions) camps. I wanted to show how it was a little "tricky" to come up with a final approach. Chris has called it complex.

Now although I was unable to get this paper off the ground it's really not necessary for the purposes of highlighting our dilemma ... that it's a contentious issue. And this is our biggest issue and our biggest risk not an individual risk where we may not get every cent we individually believe we're entitled to, but the collective risk that any disagreement within a pool will delay any distribution and see the administration continue indefinitely until any and all disagreements are resolved through the courts. This is our biggest risk. Disagreement between clients that will see the administration tied up and bogged down in court where a continuing administration will see Deloitte burn up the available cash reserves left in the MFGA business and then see Deloitte

crack open the segregated accounts to pay their fees. And continue to pay their on going fees while the administration continues along waiting for all the disagreements to get settled.

So in my opinion this is our biggest risk.

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If you had an open position at the time of MFGA's demise your biggest risk is not being disadvantaged by the adoption of a poor final settlement price calculation.

If you had an all cash position (like me) at the time of MFGA's demise your biggest risk is not having to share in any short-fall in settlement collections.

No.

Yours, and my biggest risk is disagreement within a pool that will result in court cases and a continuing administration of MFGA that will see both a delay in distributions and Deloitte's fees continuing to mount and eventually being paid for out of our segregated accounts.

Our biggest risk is that any disagreement will result in Deloitte paying themselves from our money.

Our biggest risk is not the final settlement price calculation or how any collection short falls are dealt with.

Our biggest risk is disagreement between clients within a pool that will result in Deloitte continuing to administer MFGA and eventually see our segregated accounts accessed to pay their fees ...and they will be paid, make no mistake.

Our biggest risk is being divided.

In my opinion we need to stand united in our acceptance of Deloitte's preferred final settlement price calculation and how they decide to deal with any short falls in settlement collections.

It's Not About Being Right Or Wrong, But About Us Getting The Majority of Our Money

Bryce Gilmore, an Australian trader and exponent of financial geometry, had a profound impact on me when one day during the mid nineties when we were discussing an analysis of mine. I was adamant that my analysis was significant, insightful and more importantly ...right. And yet the market refused to see the world the same way I was. Bryce said to me, and it feels like he only said it to me just the other day, he said

" ... Brent, the objective in trading is not to be right or wrong, but to make money ... "

That comment struck hard and fast to my conscious trading mind and I've never forgotten it. It's allowed me to easily walk away from losing positions without a care. I stopped wishing to be proved "right" in my analysis. I started to want to make money in my trading. I think Bryce's

advice to me over 15 years ago is appropriate to our individual and collective situation now with MFGA today.

Although we all individually have strong and correct views on what we believe we're entitled to ... and just because we believe it, whether its right or not under all the laws and MFGA agreements we have signed when opening a trading account, it doesn't mean being "right" will get our money back.

Being right in our views will not mean that we'll receive a dime.

And this is what I want to direct my focus and energy towards. To encouraging us all to see the biggest risk. The biggest risk in each of us attempting to be individually right. That path will lead to disagreement, court conflict, no distribution, mounting fees and our segregated accounts being used to pay Deloitte and their lawyers for years to come. Deloitte will see, and probably do see MFGA, as the gift that just keeps giving.

I want to encourage each of us to see the bigger picture and that is to get the majority of our trading capital out of the segregated accounts, even if it means less then we originally anticipated. Because I firmly believe what will be "less" today will be much "more" then what Deloitte will leave us after their fees are paid for managing the administration process during multiple court cases.

The Only Real Secret

Taking my trading analogy further, for those of you how have read one of my books will know, I believe the only real secret to successful trading is that the best loser is the long-term winner.

Simple.

I may have some interesting trading methodologies (which unfortunately are currently in drawdown) however the essence of why I make money is that I'm a great loser. I lose all the time. I lose quickly (not moving my stops) and I lose small (relatively to my risk capital ... money management).

I reckon I'm one of the best losers you'll ever know

But guess what, I'm also probably one of the very few traders who you may know who actually makes money. And the essence of why I do is because I know being a good loser makes me a long-term winner.

I think this trading secret is also applicable to our situation with MFGA.

I want to take my loss quickly with MFGA and Deloitte.

I don't care whether I'm right or wrong in my position with MFGA, although being in 100% cash I believe I'm right to expect to receive 100% of my account balance. But being right is not my objective. My objective is to safeguard the majority of my trading capital from Deloitte's excessive fees that will continue to mount and will be paid from the segregated account if disagreement and court conflict occurs within my pool.

My objective is to safeguard my trading capital from seeing a similar situation that has occurred with Sonray being repeated with MFGA. Sonray collapsed in 2008 and is still bogged down in

court cases. In three years there has not been any distribution of client segregated funds. My objective is to safeguard my trading capital from being used to pay Deloitte's fees during a prolonged court riddled administration.

To do this I can't afford to attempt to be "individually" right.

To do this I must "collectively" agree with the adopted final settlement price calculation and methodology used to deal with any settlement collection shortfall.

If I can "collectively" agree then Deloitte will have no arguments for complexity.

Deloitte will have no obstacles to overcome.

Deloitte will have a smooth administration.

Deloitte may not even have to go to court to seek directions.

If I can collectively agree then my pool, and each pool if they can do the same, will present a single voice to Deloitte. A single voice will remove all complexities, all obstacles, all excuses. Deloitte will have no option but to distribute our trading capital.

I want to be a good loser with Deloitte.

I don't mind taking a hair cut.

I'll be satisfied to receive less today, by being a good loser, as I know it will be more than what I've receive if the administration is delayed due to court conflict. I know I'll get much less at some indefinable future date (+1,+2,+3,+4 years?) if I attempt to be proved individually right today. I don't want to be right. I want to receive the majority of my capital now. I want to be a long-term winner now.

I hope this all makes sense and this is very important for each of us and our respective pools.

Committee of Creditors (COC)

As you know the COC will be meeting on the 22nd. Many of us on the COC understand the significance of presenting a "single" voice to Deloitte in our consultative role. I will be encouraging my fellow COC members to see the biggest risk as being disagreement, court conflict, a prolonged court riddled administration, mounting fees and diminishing segregated funds that will be used to pay Deloitte's and their lawyers' fees.

Going Forward

Due to the Confidentiality Agreement (CA) I have signed with Deloitte I do feel constrained in what I can say. And when I first saw the CA my immediate thought was of that old cliché about keeping your enemies close. Deloitte have effectively muzzled me with their CA by bringing me into the tent. And I am happy to be there as I do have input as a member of the COC. However I was not and am not happy about being muzzled.

Now although you haven't received an update from me for a while please know that many good people have been busy behind the scenes working hard on my and your behalf.

www.IndexTrader.com.au

From the desk of **Brent Penfold** *My MF Global Update*

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Futures Trader, Author and Educator

On my behalf because once I saw the CA I had to sign I made an immediate decision to identify someone who I could pass my "torch" to and become an effective voice outside the tent.

I wanted someone who could do what I couldn't do.

Well I found that someone who agreed to take over my activism and present an articulate voice outside the walls of the Deloitte stronghold.

Their role also includes managing the web site.

So although I have appeared quiet please understand there has been a dedicated group of MFGA clients working on all our behalf and when the time is appropriate I'll be letting you know who's who in the zoo. It may even be on Monday or Tuesday.

Anyway I hope this all makes sense.

I hope I can encourage everyone to resist being "right" in their individual circumstances but to embrace a "collective" position which will avoid court conflict, delay, mounting fees and risk of diminishing segregated funds. I hope everyone can see a "collective" position will result in minimal delays and giving us the best chance of an early distribution of client capital. Trying to be individually right today will only make us wrong and long-term losers. The only winners, and they will be long-term winners, will be Deloitte and the lawyers.

I hope and pray that I have made myself clear here.

Until my next update.

Yours sincerely,

Brent Penfold

MFGA Account Holder/Creditor

Futures Trader & Adviser

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