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In March, shares of a restructured Washington Mutual began trading on the pink sheets. Trading as high as 1.14 on the first day of trading, the shares have now settled into trading around .50 cents per share. The shares trade under the symbol WMIH. What follows are the reasons I have made this the largest position in the portfolios and believe it is a multi-year hold:

I'm going to begin with the facts regarding the newly issued WMIH shares. Washington Mutual Holdings has very little tangible information with respect to its current business. This makes a valuation proposition a difficult task given the fact that this is a newly formed entity that hasn't filed a 10-Q, much less a 10-K. The company consists of one active business component — WMMRC. This stands for Washington Mutual Mortgage Reinsurance Corporation.

What little information is available on WMMRC is available through bankruptcy filings:

http://www.kccllc.net/documents/0812229/0812229100326000000000009.pdf

*WM Mortgage Reinsurance Company, Inc. WM Mortgage Reinsurance Company, Inc. (previously defined as "WMMRC"), a Hawaiian corporation and non-debtor,* ***wholly-owned subsidiary of WMI****, is a captive reinsurance company, created to reinsure the risk associated with residential mortgages that were originated or acquired by WMB. Mortgage insurance for WMB-originated or acquired loans had historically been provided by seven mortgage insurance companies (collectively, the "Mortgage Insurers"), although currently WMMRC is party to mortgage reinsurance agreements with only six mortgage insurance companies. WMMRC entered into reinsurance agreements (the "Reinsurance Agreements")* *with each Mortgage Insurer, pursuant to which it would share in the risk, in the form of claim losses, in exchange for a portion of the premiums generated from the residential mortgage loan* ***portfolio*** *held by the Mortgage Insurer. Pursuant to each Reinsurance Agreement, WMMRC established a trust account with US Bank N.A. (collectively, the "Trusts"), for the benefit of the Mortgage Insurer, to hold premiums collected and to secure WMMRC's obligations to each Mortgage Insurer with respect to the insured loans. WMMRC was historically party to seven trust agreements – one for each Reinsurance Agreement to which it was a party. As of December 31, 2009, the value of the six remaining Trust assets was estimated to be $460 million. Each Reinsurance Agreement requires that WMMRC maintain a certain minimum amount of* ***capital*** *in the applicable Trust (the "Reinsurance Reserve"), which amount is determined by applicable law, as well as each Mortgage Insurer's calculation of reserves needed, which is generally inclusive of reserves for known delinquencies within the loan portfolio and a percentage of the remaining aggregate risk exposure contained in each portfolio. Minimum capital requirements fluctuate on a monthly basis and are reflected in monthly "cession statements" provided by each Mortgage Insurer to WMMRC. By order dated December 3, 2008, the Bankruptcy Court approved a loan from WMI to WMMRC in the amount of approximately $11.9 million in order to maintain an adequate Reinsurance Reserve in one of its Trusts. As of the Commencement Date, due to the Bank Receivership and the sale of substantially all of WMB's assets to JPMC, all of the Trusts are operating on a "run-off" basis because WMMRC has ceased to reinsure any new WMB-originated loans. WMMRC's failure to maintain adequate Reinsurance Reserves could result in the Mortgage Insurers' election to terminate the Reinsurance Agreements on a "cut-off" basis, in which case WMMRC would no longer be liable for the reinsured loans and would no longer receive reinsurance premiums with respect thereto. WMMRC would, however, be liable for the Reinsurance Reserve, which may, in certain cases, result in the extinguishment of all assets on account in the Trust at issue. As described above in Section IV.D.11.i, WMMRC is a named party in the Pennsylvania Action.*

According to this document dated 2009, the value of the trust assets is $460 million. Equally as important is the fact that WMMRC is not liable for maintaining adequate reserves for reinsurance, absolving them of far reaching liability.

In the bankruptcy filing during Q1 2012, the courts come up with the following plan to create an equity class for investors:

http://www.sec.gov/Archives/edgar/data/933136/000090951812000138/mm03-2712_8ke991.htm

*The Plan provides that Reorganized WMI (1)* ***will receive $75 million,*** *(2)* ***is valued at $210 million*** *(before receiving the $75 million),* ***which includes $140 million for WMMRC****, (3) will issue new common stock, and (4) will issue debt instruments that are repaid solely with the run-off proceeds from WMMRC (the "Runoff Notes". The new common stock and Runoff Notes were issued on March 23, 2012. The Debtors' equity holders (and claimants subordinated to the level of equity) received the vast majority of the new equity of Reorganized WMI. Certain elections entitle creditors to receive newly issued common stock and Runoff Notes in lieu of cash as part of their initial distribution (the WMI Liquidating Trust will hold the remaining Runoff Notes until distribution to LTI holders in accordance with the Plan). Therefore, these adjustments reflect the value adjustments to Reorganized WMI in order to show the initial distributions of common stock and Runoff Notes, which occurred on March 23, 2012, and which are deemed to relate back to the Effective Date, March 19, 2012.*

The court assigns a very clear valuation to WMIH shares of $210 million, which equates to roughly $1 per share based on 200 million shares outstanding. The current company consists of two primary assets:

1. WMMRC – $140 million valuation given by the bankruptcy court
2. CASH – $75 million in cash to fund ongoing operations

In addition, the company has access to a $120 million credit facility that can be used to merge itself into a new, profitable businesses.

On July 19th, the company announced its plan to have Blackstone Group advise it as to how to best utilize its cash reserve along with its credit facility.

http://www.reuters.com/article/2012/07/19/wmiholdings-blackstoneidUSL2E8IJM8820120719?feedType=RSS&feedName=privateEquity&rpc=43

The idea is to find a good management team and a profitable operating business that can be grown, the sources said, adding that the process was still in the initial stages. One attraction for the company is its net operating liabilities, or NOLs, which can be used to reduce the tax bill for a profitable business, the source said. But for that WMI would have to be the buyer, as NOLs do not carry over if the company that holds them is acquired, the source said. "It could create a lot of value to buy a business," the source said.

Thus far, we have the following picture: A company valued at $210 million by the courts, consisting of two assets CASH ($75 million) and WMMRC ($140 million).

Given the current market price of .50 cents per share, the total market cap of the company is roughly $100 million. The company is currently trading at less than 1.5 times cash, valuing WMMRC at $25 million.

The great mystery of WMMRC that nobody seems to know the answer to is the value of the WMMRC above and beyond the runoff. WMMRC being in runoff basically means that revenues from its operations are being used to pay back notes that borrowed against the valuation of the company. What isn't known is what is the value in excess of the runoff notes? Why did the courts assign a value of $400 plus million to WMMRC in 2009? Now that same entity is worth $25 million as deemed appropriate by the open market? There seems to be a vast shift in sentiment towards WMMRC that is currently sitting at the bottom range of even the most pessimistic assumptions going forward.

But wait, there is more:

WMIH's most valuable asset may be its NOLs. Net Operating Liabilities that have been rolled over from the WAMU debacle can essentially be used to create tax free income on any businesses that WMIH chooses to merge/acquire with. The potential value of the NOLs has ranged anywhere from $20 million all the way up to near $7 billion. The bankruptcy courts had this to say about the valuation of the NOLs:

http://sec.edgar-online.com/wmi-holdings-corp/8-k-current-reportfiling/
2012/03/01/section12.aspx

*Pursuant to the September Opinion, and on the basis of the evidence presented at the July Confirmation Hearing, this Court determined that "the value of the existing business of WMMRC (assuming no new business is generated or acquisitions are made) is . . . $140 million." Conf DX 442 – September Opinion at 45. In addition, this Court determined that Reorganized WMI's total enterprise value is $210 million, taking into account the value of net operating losses (" NOLs ") potentially available to Reorganized WMI, including both "the value of the NOLs to the existing WMMRC business" (which the Court determined had a value of $20 million) and the value of "the NOLs that might be able to be used in the event of a future acquisition of a profitable business" (which this Court determined had a value of $50 million). Conf DX 442 – September Opinion at 47, 62. This Court's finding as to the value of the NOLs that might be able to be used in the event of a future acquisition of a profitable business was "based on the Court's conclusion that the Reorganized Debtor should be able to raise additional capital and debt over the next twenty years equal to twice the value of its current assets which will be invested in restarting the reinsurance business of WMMRC or acquiring other related businesses." Conf DX 442 – September Opinion at 62.*

The core of the WMIH business will not be in WMMRC and guessing what the value in excess of the runoff can be. But rather to take advantage of the NOLs to create what will effectively be a leveraged entity creating tax free income. This is the purpose of both the $75 million cash infusion and the $125 million line of credit. These are tools to be used to unlock the value of the NOLs through merger/acquisition of a PROFITABLE company that can utilize the NOLs as much as possible.

What can then happen is that the undesirable "Washington Mutual" name can be shed permanently and the company can reemerge as a completely new entity that has years of tax free income at its disposal to either expand through acquisition or reinvest back into whatever business it so chooses.

Additionally, there are four major hedge funds that have been involved in the Washington Mutual bankruptcy since day one. These hedge funds are Owl Creek Asset Management LP, Appaloosa Management LP, Centerbridge Partners LP and Aurelius Capital Management LP. These hedge funds took part in some questionable strategies in order to be able to control the outcome of the bankruptcy. That outcome involved keeping 100% of the restructured entity for themselves.

What did these giants in the world of finance see in Washington Mutual that made them want to risk insider trading charges (alleged in court) in order to take full control of the bankruptcy, effectively shutting retail investors out completely?

We know what they didn't see as attractive: The $75 million the company has on its balance sheet was given to the WMIH by the hedge funds as a compromise to settle without furthering the allegations of insider trading. We know that WMMRC has a max value of $500 million, which amounts to small bones for these carnivores of finance. The NOLs equal leverage. The hedge funds were 100% after the leverage the nearly $5 billion in NOLs provide.

Now enter Blackstone that has been advising the hedge funds, the courts and now the restructured WMIH since day one. Blackstone is here to advance there use of the NOLs, as per the original plan, except that OTC equity shares will also now participate, instead of simply institutions that were privy to the opportunity and managed to lock all other interested parties out completely.

In order to complete the picture of the power of NOLs when utilized properly, here is a case study: **http://seekingalpha.com/article/604461-fairfax-financial-holdings-the-linebetween-desperation-and-the-miraculous**

This case study doesn't mean that WMIH is guaranteed to turn out this way. What it does demonstrate is that under the proper guidance, NOLs can be effective tool to create value for a management that knows how to utilize them properly.

Bottomline: Stripping out the $75 million in cash, given the current per share price of .50 cents gives you a market capitalization of $25 million for the remainder of the package. What does that package consist of?

1. WMMRC – Potential value ?
2. NOLs – Potential value ?
3. The potential of Blackstone being able to capitalize on the situation properly and create value where there are only question marks currently. Intellectual capital you can call this.
4. A newly formed board of directors and management team that will be highly incentivized in the near future to create an entity that flourishes.
5. This is the current list of the board of directors for WMIH
**http://www.prnewswire.com/newsreleases/equity-committee-nominates-four-board-members-for-reorganizedwashington-mutual-inc-138655344.html**

Doesn't look like a group that was assembled to insure failure, but rather to properly guide the restructuring.

It seems to me that $25 million is a bottom of the barrel price to pay for four different assets that are being discounted only because they are difficult to value at the present moment. Difficulty in valuation is what creates the most outstanding opportunities in the financial markets.

The question here for investors in WMIH is a question of time? My biggest concern with the company as an investment is not the potential for success but rather the length of time it will take to achieve that success. The question of time should gain clarity over the coming months, into the end of the year.

In the meantime, my time horizon for this investment is not several months, but years. I think this type of mentality towards WMIH as an investment is what will yield the greatest results without the burden of unrealistic expectations for magic to happen at the snap of two fingers. Given the upside potential (1000% +) I am willing to give it the time it needs to answer all the questions that investors have in a favorable and profitable manner.

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