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MF Global Files Bankruptcy

MF Global has filed for bankruptcy leaving many other Wall Street firms feeling the effects. Other companies with links to MF Global saw the value of their stocks plunge as investors' confidence took a severe bashing. Even companies that took damage control steps experienced a slide. The Jeffrey's Group issued a statement saying they had minimal exposure to MF Global. Their stocks fell by almost 10%. The Fortress Investment Group declared that it had "almost zero" exposure to MF Global saw their stocks fall by more than 11%.

Brokerage firm MF Global bought \$6.3 billion of sovereign debt in troubled countries like Italy and Spain. The position was nearly five times the firm's equity of more than a billion dollars. In October when the now infamous PIGS nations (Portugal, Italy, Greece, Spain) sovereign debt crisis reached a peak, two rating agencies downgraded MF Global's ratings citing their doubts over the firm's risk controls given their exposure.

As a result of the rating, trading partners asked for more money from MF Global to be invested into their portfolios. Over and above that, MF Global also experienced a loss in their business in the third quarter. This added to the pressure on their stocks and further depleted their capital position. MF Global secured a \$1.3 billion loan but it was not enough to prevent bankruptcy.

MF Global tried to reassure clients with a letter stating the firm's financial strength. Many clients tried in vain to communicate with the firm as their phone calls went unanswered.

Some financial exchanges took various actions against MF Global. The Chicago Mercantile Exchange and the IntercontinentalExchange stopped the firm's trading and others barred MF Global employees from entering their premises.

But ironically, MF Global has not experienced any major losses, just that the size of their risk is too large compared to the amount of their capital. Even their sovereign debt may turn out right. The firm was betting on the European community to bail out the troubled economies of the countries concerned and that they would not default on their debts. If this happens, MF Global's investments would pay off. But investors do not have the patience to wait and see.

If you have a business that is financially troubled, consider filing for bankruptcy protection. It is a way to secure your financial survival and give you a fresh start. Call us at (813) 200 4133 for a free consultation.