



Under The Hood: A/N's look inside hedge fund strategies

Calif. Start-Up Breaks Even On Long Energy Bets

Sacramento, Calif.-based Stowe Partners, a hedge fund firm founded by a former geologist, has avoided the carnage caused by the credit crisis by taking long bets in oil service companies, refineries, natural gas, and water-related investments. The fund began trading on June 1, and through July 31 was able to break even with 0% returns.

Founder Michael Keenan admitted he was mildly disappointed with the returns. "Obviously, the desire is to be positive," he noted. But market conditions have been difficult. "It's a heck of a time to launch a fund [with] extreme volatility back and forth," he noted.

In addition, he has gone long transportation stocks, which he said are correlated to the oil sector. He is short the S&P 500 index, but was seeking to gain slight longer exposure as *AIN* went to press. Keenan is surprised that two of the major commodities his fund invests in—gold and silver—are flat considering inflationary pressures. "I'm puzzled by it," he said. "[But] the market is what it is. It's not going down, but it's not really going up."

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He has avoided leverage so far, since most of the "hedge funds in trouble are the ones that use leverage." Keenan runs the fund with partner Jeremy Olen (iatlemari11e.com, 4/20).

Long Vol Bets Pay Off For Conquest

New York's Conquest Capital Group returned 11.57% in its *ma.cm* strategy last month as volatile financial markets played into the firm's hands. "The way we made our money was by being long volatility," said Marc Malek, managing partner.

Each of the fund's three sub-strategies—counter-trend, short-term, and trend-following—was profitable, with 90% of the returns coming from foreign exchange, fixed-income, and equity indices, according to the firm's letter to investors. Of these three sectors, foreign exchange was the most profitable, contributing 5.16%.

The firm has been accepting a major dislocation in world financial markets since at least February, when it told investors to expect "significant pressure" on equities, due to a mispricing of risk (ialternatives.com, 3/9). But July's events were just the beginning, Malek predicted. "As this sort of situation evolves, it's going to set in motion large movements in the market," he said.

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