

November 10, 2008

What Crisis? Some Hedge Funds Are Gaining

By [LOUISE STORY](#)

Bernard V. Drury is a rarity on Wall Street: a hedge fund manager who is making money rather than losing it.

While most hedge funds are sinking into red this year and unsettling the markets in the process, a handful of them are posting spectacular gains. Mr. Drury's fund, for instance, is up 60 percent since Jan. 1.

How did he do it? Mr. Drury, a former grain trader, is not giving away his secrets. He relies on proprietary computer models to chart tides in the markets and to ride the prevailing currents.

But however smart or lucky the moneymakers have been, a few bad trades can end any hot streak. Despite Wall Street's reputation as a place of big money and bigger egos, many of the winners are reluctant to boast, particularly given the gaping losses threatening some rivals.

"There's going to be, naturally, a lot of forms of disillusionment with hedge funds," said Mr. Drury, who opened his fund, Drury Capital, in 1992.

Indeed, gloomy talk of an industry shakeout is getting louder as returns at most funds sink lower. Over the last few months, some funds have been forced to dump stocks and bonds because their investors want their money back. Wall Street traders worry that another big wave of withdrawals in mid-November could further unsettle the markets.

All of which makes the big winners stand out even more. Hedge fund returns, on average, are down 20 percent. But one in every 50 funds is up more than 30 percent — an astonishing performance, considering the broad stock market is down even more than that.

Winners include trend-followers like Mr. Drury; market-spanning macro funds, which dart in and out of an array of markets and bet on everything from [Apple Inc.](#) to zinc; and niche players that are buying insurance policies or making loans to small companies.

Some of this year's stars are familiar names on Wall Street. For instance, a fund managed by

[John Paulson](#), who reportedly was paid \$3.7 billion in 2007 after betting against the subprime mortgage market, has gained nearly 30 percent this year in his largest fund, investors say.

But some of the other moneymakers are not well known, and could benefit as competitors close and investors look for new places to park their money. Hedge-fund traders who make a killing are often lionized within the industry. One good year can vault a small player to the big leagues.

But with so many funds down — only one in three has made any money this year — the price of admission to the winner's circle has fallen. A showing that would have been considered dismal only a year ago is now viewed as a standout success. Traders even joke that down 10 percent is the new break-even. Actually making money is all the more rare.

"This year, anything north of 10 percent is spectacular," said Pierre Villeneuve, managing director of the Mapleridge Capital Corporation, a \$750 million hedge fund in Canada that is up 18 percent.

Other funds with big winnings include R. G. Niederhoffer Capital Management; Conquest Capital Group; MKP Capital Management; the Tulip Trend Fund, run by Progressive Capital; and funds run by John W. Henry & Company.

Never before have so many funds been down. In 5 of the last 10 years, fewer than 15 percent of hedge funds lost money. Even in the worst year, 2002, 31 percent finished down, according to estimates from [HedgeFund.net](#), a unit of Channel Capital Group. This year, some 70 percent of hedge funds had lost money from Jan. 1 through the end of September.

To a degree, hedge funds are hostage to their stated investment strategies, and investors judge them accordingly. Funds that specialize in convertible bonds and stocks, for example, are among the worst performers this year because those markets have been hard hit in the [financial crisis](#).

Losers include well-known traders like Kenneth C. Griffin, who runs [the Citadel Investment Group](#); Lee S. Ainslie, head of Maverick Capital; and David Einhorn, the head of Greenlight Capital, who called attention to the troubles at [Lehman Brothers](#) before many others.

Still, funds that specialize in investment strategies that have suffered could come out looking good if they manage to post even modest gains. For instance, Exis Capital, a \$150 million fund that trades stocks, is up 9 percent this year, even after the fund's manager took their 50 percent fee, according to investors. The average stock fund, by comparison, is down 22 percent, according to estimates from Hedge Fund Research. In commodities trading, Touradji Capital

Management is up 11 percent even as its competitor, Ospraie Management, was forced to liquidate a large fund.

At some hedge fund companies, this year's performance is mixed. Trafalgar, a hedge fund in London, manages 10 funds. Three are down, but two — a volatility fund, and "special situations" fund — are up more than 20 percent, according to an investor.

Trafalgar declined to say what special situations it had pounced on. Volatility funds, a category that is broadly doing well, focus on trading options and try to profit when the markets swing wildly as they have lately.

Lee Robinson, co-founder of Trafalgar Asset Managers, said his firm's success set it apart from competitors.

"Every investor is going to say, 'What did you do in September '08, what did you do in October '08?' and if you were down significantly, you're going to have trouble raising money," Mr. Robinson said. "The most important question is not, 'How much money am I getting back?' it's 'Do I get my money back?' "

Several managers who are doing well did not want to brag at a time when so many of their industry colleagues were struggling.

"You don't do victory laps," said Adam Stern, a partner at AM Investment Partners, whose volatility fund is up 6.75 percent this year. "It's a very sad time for a lot of people. People worked very hard, and they're losing a lot of money and net worth."

Marek Fludzinski, one of this year's winners, remembers what it was like to be a loser. Mr. Fludzinski, the chief executive of Thales Fund Management, was among the computer-loving quantitative fund managers who suffered in 2007, when his fund lost 8 percent. Investors immediately began asking for their money back, so Mr. Fludzinski shut the \$1.6 billion fund and started anew.

Now his computer-driven fund, created in May, has grown to \$350 million from \$80 million in assets and is up 14 percent.

Mr. Fludzinski said the important factor in running a hedge fund these days was simply surviving.

"Don't do something that will kill you," said Mr. Fludzinski, who uses a database with 14 years of prices on thousands of stocks to try to spot patterns like the forced selling of stocks.

Marc H. Malek, a former UBS trader who manages \$611 million, is up 44 percent in his macro fund. But even as new investors approach his company, Conquest Capital, the firm is also receiving redemption requests from investors who want their money back, Mr. Malek said. Investors are pulling cash from wherever they can.

A growing number of troubled hedge funds are temporarily refusing to give investors their money back by freezing their funds, in industry parlance. But others are profiting from the waves of panic that have convulsed the markets this year.

Roy Niederhoffer, founder of R. G. Niederhoffer Capital Management, whose more famous brother, Victor, made and then lost a fortune trading, is up more than 50 percent. To predict how investors will behave, Roy Niederhoffer, who majored in neuroscience at Harvard, delves into psychological research.

But Mr. Niederhoffer does not need much research to tell him that some investors chase winners. With his fund soaring, investors are piling on. His assets under management have climbed to \$2 billion, from \$700 million earlier this year.

Still, Mr. Niederhoffer is not planning any celebrations.

“The greatest danger at a time like this is hubris,” he said. He has banned fist-pumping victory poses on his trading floor.

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Marek Fludziński, above, of Thales Fund Management created a fund in May that has grown to \$350 million. Marc H. Males, right, of Conquest Capital, oversees a macro fund that is up 44 percent.



MARKET CAPITAL FOR THE NEW YORK TIMES

What Crisis? Some Hedge Funds Are Doing Quite Well

From First Business Page

For new places to park their money, hedge-fund traders who make a killing are often forced within the industry. One good year can vault a small player to the big leagues.

But with so many funds down — only one in three has made any money this year — the price of admission to the winner's circle has fallen. A showing that would have been considered dismal only a year ago is now viewed as a modest success. Traders even joke that down 10 percent is the new break-even. Actually making money is all the more rare.

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To a degree, hedge funds are hostage to their stated investment strategies, and investors judge them accordingly. Funds that specialize in convertible bonds and stocks, for example, are among the worst performers this year because those markets have been hard hit in the financial crisis.

Losers include well-known traders like Kenneth C. Griffin, who runs the Citadel Investment Group; Lee S. Amick, head of Maverick Capital; and David E. Hohn, the head of Greenlight Capital, who called attention to the troubles at Lehman Brothers before many others.

Still, funds that specialize in investment strategies that have suffered could come out looking good if they manage to post even modest gains. For instance, Exo Capital, a \$150 million fund that trades stocks, is up 8 percent this year, even after the fund's in-

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Some managers are thriving, but they're keeping their heads down anyway.

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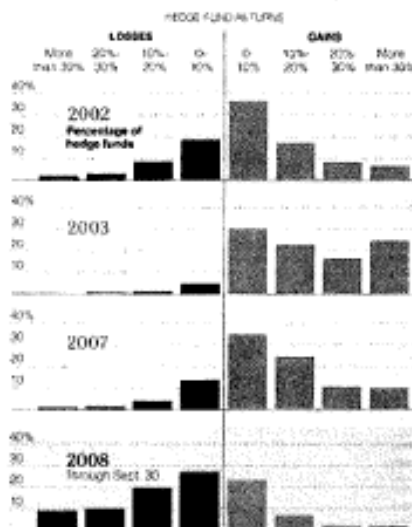
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March Fludziński, one of this year's winners, remembers what it was like to be a loser. Mr. Fludziński, the chief executive of Thales Fund Management, was among the computer-driven quantitative fund managers who suffered in 2005, when his fund lost 4 percent. Investors immediately began asking for their money back, so Mr. Fludziński shut the \$2.6 billion fund and started anew.

Now his computer-driven fund, created in May, has grown to

more than \$350 million. But this year nearly 70 percent have lost money — a worse performance than in 2002, the previous year, and much worse than in a good year like 2003, or last year.



Source: Citadel Capital Group, a unit of hedgefund.net

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