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# UPDATE 1-Stunned funds get scraps from Dow's plunge

Mon, May 10 2010

- \* Source says Coffey turned 1.5 pct profit on the week
- \* 'Long volatility' funds said to gain up to 10 pct
- \* Long-only managers avoided roller-coaster markets (Adds details of Conquest Capital fund)

By Laurence Fletcher

LONDON, May 10 (Reuters) - Hedge fund managers and their mainstream peers were left stunned by the dizzying declines on Wall Street last Thursday, but a select few turned a profit, diving in just in time with the right strategy.

The Dow Jones index of 30 blue chip stocks fell by close to 1,000 points on Thursday, a plunge that has left regulators and markets stumped. The finger of blame has pointed at flaws in the structure of markets and at high-frequency trading houses whose computer-driven programmes can make tens of thousands of trades a day. [ID:nN09274100]

But Greg Coffey, formerly of GLG Partners and now a star fund manager at Louis Bacon's hedge fund Moore Capital, made a profit of 1.5 percent last week, sources familiar with the matter said, using the sell-off as a trading opportunity.

The gain came as U.S. stocks ended the week about 6 percent lower, recovering from their steepest intraday fall ever.

New York-based hedge fund Conquest Capital's macro fund turned a 3.75 percent profit on Thursday, and ended the week up about 10 percent not including fees, a spokesman for the firm said.

Conquest Macro uses a systematic short-term trading strategy designed to outperform during periods of high volatility. Thursday's gains came from a combination of existing positions and new trades entered that day across fixed income, foreign exchange and equities.

"As part of the discretionary overlay, we had started accumulating a position in S&P puts in April before the rise in volatility that we hedged on Thursday by buying S&P futures at the depth of the sell-off and height of the madness," the spokesman said.

So-called 'long volatility' hedge funds -- which profit from market turbulence and are often used by investors to hedge their portfolios against big sell-offs -- also did well.

One such fund gained 10 percent last week, said Tim Gascoigne, head of portfolio management at HSBC Alternative Investments. Another manager told Reuters of a 4 percent gain from one fund on the Thursday alone.

"Where they see value in implied volatility in option pricing, they will take these opportunities," Gascoigne said.

'MOST GUYS WERE OK'

The heads of leading U.S. stock market operators were called to Washington for an emergency meeting on Monday, as the Securities and Exchange Commission attempts to unearth the reasons behind the spine-chilling plunge. [ID:nN09274100]

Hedge funds wasted time pondering the reasons for the glitch with money to be made -- or lost, of course.

"Some will (have been) rolling up their sleeves and trading the (hell) out of it, others are value-driven," and therefore less likely to act, said one London-based fund of hedge funds manager who declined to be named.

"From what I've seen so far, most guys were OK -- they lost 1 percent or made 1 percent."

However, other hedge funds chose not to risk big losses.

"It's not our style to do something in such high volatility," said one hedge fund executive who spoke on condition of anonymity. "Hedge fund managers will not necessarily want to get involved if they don't know why it happened."

They weren't the only ones.

The speed and surprise of Thursday's sell-off and rebound left most long-termist, mainstream fund managers shrugging their shoulders, and steering clear of the kind of aggressive trading that hedge funds can employ in such scenarios.

'I WAS ON THE TRAIN'

Tom Walker, whose Martin Currie North America and North American Alpha funds <LP60010491> <LP65095576> did better than most last week, said his portfolios remained unchanged through the tumult. He even left the office at his usual time while speculation raged in New York.

"I don't really have a strong view on the trading debacle I don't think we've got to the bottom of it yet We did nothing on Thursday "

"We didn't change anything we were doing -- we weren't trading at that time. I was on the train going home."

"It was so short ... If you were very nimble you might have done very well, but our strategy is to buy and hold. We don't tend to watch markets all day long."

"The reward for watching the screen all day long looking for that kind of opportunity is pretty limited. In hindsight it was a pretty good opportunity, but too short to take advantage of." (For the Funds Blog: [blogs.reuters.com/fundshub](https://blogs.reuters.com/fundshub); for Global Investing: [here](#))  
(Additional reporting by Joel Dimmock and Claire Milhench; Editing by Steve Orlofsky)

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