

Hedge Funds versus Equities

Forget about correlations.

Since Jan 1998, over 159 months,

Hedge funds were positive when equities were positive 80 months or 50.35% of the time.

Hedge funds were negative when equities were negative 47 months or 29.6% of the time.

Hedge funds were positive when equities were negative 25 months or 15.7% of the time.

And

Hedge funds were negative when equities were positive 7 months or 4.4% of the time.

Thus, when equities are down, the chances of your hedge fund losing money are: 47 out of 72 or 65.3%.

When equities are up, the chances of your hedge fund losing money are 7 out of 87 or 8.1%

However:

Since Jan 2008, over 31 months,

Hedge funds were positive when equities were positive 15 months or 48.4% of the time.

Hedge funds were negative when equities were negative 14 months or 45.2% of the time.

Hedge funds were positive when equities were negative 2 months or 6.5% of the time.

And

Hedge funds were negative when equities were positive 0 months or 0.0% of the time.

Thus, when equities are down, the chances of your hedge fund losing money are: 14 out of 16 or 87.5%.

Post 2008, the markets have begun to behave in a very volatile and erratic fashion that has confounded many hedge fund managers who had previously navigated market crises such as 1998 and 2001 successfully.