To chase or not to chase?

You’re performance is lagging the market. Maybe you are only up single digits or mid teens, ytd. The (MSCI Asia-ex Japan) market is +35%.

You panic because you’re getting left behind.(http://seekingalpha.com/article/140986-underperformance-angst-and-panic-to-the-upside?source=article_lb_author) You tell yourself, its ok, hedge funds are absolute return. But then how much did you make in 2008? You’re running a low gross maybe around 60% with a low net around 20%, chock full of defensives on the long-side and high beta crap on the short side. Beta adjusted you’re at best neutral. The markets keep rising. You tell yourself, it doesn’t make sense, fundamentals are still bad. Yet the market still rises and you lag farther behind. Then you ask yourself, do i bite the bullet, go super long and load up with all the stuff that has gone up 100% already, or do i stand firm? To chase or not to chase?, that is the question. The urge to follow the herd become unbearable. If I chase, and the market reverses, then I’ll be negative. If I don’t chase and the market rises more than I’ll be further behind. Welcome to underperformance blues. What was usually reserved for long only managers, is now creeping into their hedge fund counterparts psyche. (http://seekingalpha.com/article/140615-are-hedge-funds-missing-the-rally)

To that I say, play your own game. Who cares what the market does anyway? You shouldn’t be correlated with the markets. What’s the point of paying 2/20 for index returns? I would pull my money out of any hedge fund who is +35% this year. If you can churn out 15% year after year then you are a hero. Sticking to your investment process during tough times is the true test for any money manager. At some point every money manager has to go through this. Ask Warren Buffett during the dot.com craze. Resist the urge to follow the crowd, because if you don’t, you’re not worth the 2/20.