

Hedge Fund Strategy Performance April 2009

As investors agonized over whether markets were in a bear or bull rally, money continued to be made by hedge funds. Let's look at the 1 month numbers. Equity long short returned a strong 5.74% on the back of rising equity markets. They captured roughly half of the upside in equity markets. That's not the idea, but that's how it is, particularly with aggregates. Convertible arbitrage also had a good month, up 5.74% as a confluence of technicals and fundamentals led a general recovery in convertible bonds. The convertible bond market was one of the most distressed markets in 2008 and is now understandably seeing a strong recovery. Emerging market hedge funds also one of the most distressed markets last year did exceedingly well in April, up 7.80%. As one might expect, the strategies that did well last year, Global Macro, CTA's and Merger Arb lagged not only in April but YTD. Taking a slightly longer term view (backwards), over 12 months, Global Macro and CTA's did well, so did Merger Arbitrage and Market Neutral. Emerging Market funds are still well under water, so too Convertible Arbitrage and Distressed Securities.

So much for the rear view mirror.

The past 2 years will be the some of the most heavily analysed and misunderstood periods in the history of investing. The analysis of the errors and weaknesses of this period will help us to avoid repeating the mistakes we made, but the human being is creative and it is almost certain that new mistakes will be developed and implemented.

In the meantime, the performance of index aggregates is interesting albeit not terribly helpful in investing for the future. There is some evidence of momentum in returns in markets as well as in some strategies, but there is insufficient consistency that one can mechanically act on simple momentum indicators.

