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Hedge funds get an 'F'

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Hedge funds, which are supposed to outperform stocks and bonds in up and down markets, have failed again.

Overall, hedge funds lost roughly 4 percent in 2011, marking the \$1.7 trillion industry's second-worst year on record, according to data to be released today by hedge fund tracker Hennessee Group.

By some accounts, however, last year was even worse than 2008, when the average fund lost 20 percent. That's because, in addition to an overall negative return, the industry also failed to beat the broader markets.

These super-secretive traders generally pride themselves on being able to provide returns in any market.

"If everybody was totally hedged, you should have a positive return, which you don't," said Campbell Harvey, Duke University finance professor.

At the very least, they boast of being able to outperform stocks — the same securities that make up the bulk of the industry's assets.

In 2008, for instance, the industry boasted that while hedge funds fell an average of 20 percent during the financial meltdown, the Standard & Poor's 500 index lost a whopping 40 percent.

Not in 2011.

Last year, the Dow Jones industrial average gained 5.5 percent, while the S&P was virtually flat. The Barclays Aggregate E index posted annual gains of about 8 percent.

Lee Ainslie's Maverick Fund ended last year down 15 percent, while Glenn Dubin's Highbridge Long-Short Equity fund lost roughly 12 percent, according to data obtained by The Post.

The biggest pounding last year was suffered by hedge fund superstar John Paulson, who rose to prominence in 2008 due to his bets against toxic mortgages.

Last year, Paulson suffered double-digit declines in several of his funds, and was on track to lose between 30 and 50 percent in his Paulson Advantage funds as of December, according to data obtained by The Post.

Charles Grandante, co-founder of Hennessee Group, said hedge funds were hurt by Europe's debt crisis, seesawing market and backfiring bets on gold and financial stocks.

"Globalization has caused the stock market to really change its complexion," he said.

Indeed, some hedge funds played it too safe when stocks started slumping in August because of concerns over Europe's crisis and a possible double-dip recession in the US.

After losing money from the summer swings, many hedge funds moved to cash and, as a result, never benefitted from the market's back up.

Of course, some funds also posted stellar 2011 returns, setting them up to be closely watched in 2012.

Jim Simon's REIF fund returned a whopping 35 percent in 2011, while Ray Dalio's All Weather fund returned 17 percent, sources said.

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