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Prominent hedge funds nurse heavy losses in 2008

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BOSTON (Reuters) - Recent stock market drops hurt some of the world's most famous hedge fund managers, who have long attracted money with promises that they could sidestep even the worst conditions.

Bruce Kovner's Caxton Alpha Equity fund, Lee Ainslie's Maverick Fund and Leon Cooperman's Omega fund rank among the $2 trillion hedge fund industry's prominent losers in the first days of 2008, according to people who have seen the numbers.

The average global hedge fund lost 3 percent through the end of last week, according to Hedge Fund Research data, and that was before global markets plunged on Monday, when indexes fell 7.2 percent in Germany and 7.4 percent in India. U.S. markets were closed on Monday.

U.S. hedge funds specializing in stocks were off 5 percent on average through last Friday, according to data from New York-based Hennessee Group, which invests in hedge funds and tracks their performance.

"This month is going to be the worst start to the year for hedge funds in a very, very long time," said Charles Gradante, a principal at Hennessee.

In fact hedge funds, loosely regulated portfolios that became hugely popular with endowments and pension funds over the last decade on promises to protect against declines, have never lost more than 1 percent in the first month of the year since Hennessee began tracking the data in 1993.

Hedge funds, unlike mutual funds, are not required to report returns and the first indication of the industry's performance for the start of 2008 won't be known for at least two weeks.

Now 2008 promises to be different at the start, the middle and the end of the year, industry analysts and investors said. They did note that so-called short sellers, who bet exclusively on stocks falling, are having a good year, building on their average 9.6 percent return last year as recorded by Hennessee.

"We are going to see a very wide disparity of returns even among funds that pursue the same type of strategy," said Stewart Massey, founding partner of Massey, Quick & Co, an investment consultant with $1.3 billion under advisement.

Already in the first two weeks of January, Maverick Fund, which returned 26.7 percent last year by betting on declines in financial stocks, was battered itself. A person who saw the numbers but was not authorized to discuss them publicly said it lost 4.95 percent through January 11, more than the Standard & Poor's 500 index, which fell 4.6 percent through January 11.

The Caxton Alpha Equity fund, up 12.18 percent last year, slid 6.92 percent through January 15, more than the broader S&P index, which was off roughly 6 percent, the person said.

"There are people getting crushed by these markets," said a hedge fund investor who asked not to be named. Last year, the average hedge fund returned 11.6 percent.

Many investment advisers are soothing nervous clients by reminding them that even hedge funds, despite their ability to short stocks, can't escaped unscathed from selling that sent the S&P down 10 percent for the year through Tuesday.

Hedge funds focused on international stocks are down an average 8 percent while those specializing in arbitrage strategies are off by 7 percent to 8 percent midway through the month, Hennessee data show.

"The question is going to be are your managers down 8 percent or are they down 2 percent in January," Massey said. "I would certainly not characterize (the latter) as a great outcome but I would also not be disappointed."

But some investors are losing patience and may pull money out of offshore funds at the end of January or quit onshore funds at the end of March, the earliest time many can get out.

"The market-neutral hedge fund managers are receiving redemptions for last year's poor performance. Investors are getting fed up in hearing about absolute returns," but seeing red ink, Hennessee Group's Gradante said.