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Hedge funds up in April after poor start to year

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BOSTON (Reuters) - Hedge funds posted gains in April but lagged behind the broader market as these loosely regulated portfolios stepped more cautiously after having posted their worst-ever returns at the start of the year.

According to preliminary data from the Hennessee Group, the average U.S. hedge fund gained 2.2 percent last month. Data from Hedge Fund Research (HFR) show a 1.64 percent rise.

The broad Standard & Poor's 500 stock index rose 4.8 percent as stock markets recovered and the outlook for growth improved some after a string of U.S. interest rate cuts.

"Hedge fund managers did not catch the bounce the way the broader market did in April and I would not be surprised to see more subdued returns for a while," said Stewart Massey, founding partner of Massey, Quick & Co., an investment consultant which puts money with about 30 hedge funds.

"But that it understandable because many now have a fairly conservative posture and don't have a high degree of conviction. I would rather see a manager take a more conservative tack than swinging for the fences," Massey said.

April's returns helped trim the loosely regulated \$1.8 trillion hedge fund industry's year-to-date losses, leaving the average fund off 1.8 percent in the first four months, according to HFR and Hennessee data.

That is better than the broader market where the S&P 500 index has lost 5.7 percent in the first four months of the year.

The year-to-date data show great improvement from the 4.4 percent loss through March, which managers said unnerved many investors and sparked talk that the trickle of redemptions at some funds might turn into a broader-based flood.

April's gains were fueled, in part, by a 4.06 percent rise at hedge funds specializing in technology and healthcare sectors, HFR said. Also funds concentrating on energy and basic materials did well.

As expected, short sellers -- funds that only bet against the future of a stock -- posted the month's heaviest losses as the stock market recovered. In April the industry's handful of short sellers lost 3.58 percent, reducing their once formidable gain for the year to 3.72 percent.

For some investors the April numbers let them breathe a sigh of relief and speculate that big investors like pension funds, who rely on hedge funds to boost portfolio returns in bad times, won't be heading for the exits yet.

"I don't see money coming out of the industry on a net basis," Massey said, adding "I think it will just seek different strategies within the industry."

(Editing by Phil Berlowitz)

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