

[Print](#) | [Close this window](#)

Short-sellers suffer crushing losses in July

Fri Aug 7, 2009 11:01am EDT

By [Svea Herbst-Bayliss](#)

BOSTON (Reuters) - For many money managers who bet exclusively that securities will fall, July may go down in history as their personal Waterloo.

When performance data is announced in the next few days, the numbers will show high single-digit or even double-digit losses at so-called dedicated short-sellers, industry analysts and investors forecast.

"Every few years short-sellers have their day in the sun," said Brad Alford, founder of Alpha Capital Management, an advisory firm that invests in hedge funds. "Then things revert to normal where the markets rise and life becomes so difficult for them that many just go out of business," he added.

Short-sellers, who are often called the vultures of Wall Street because they help accelerate drops in stock prices, began having a bad year as soon as the stock market began to turn around when fears about the global downturn eased.

In the first six months of 2009 they lost 9.38 percent, compared with the 9.55 percent that other hedge funds gained.

And with the Standard & Poor's 500 stock market index last month recording its best gains for July since 1997, returns for short-sellers will be nothing short of a blood bath, analysts predicted.

To anyone considering hedge fund investments in the coming months, the data will illustrate that these managers who cashed in on last year's financial markets crash now rank as the \$1.4 trillion hedge fund industry's worst performers.

Ironically short-sellers may have even helped fuel a recent rally in newspaper stocks by shorting shares of Gannett Co, which were the S&P 500's top gainer in July, rising 96 percent.

Short-sellers that sold Gannett shares in the belief they would drop in price were instead forced to reverse course and cover positions by buying the stock, analysts said.

With the overall market recovering, demand for dedicated short-sellers will likely decline, shrinking the industry's already tiny community even further.

Since hedge funds are not required to report their performance, it is impossible to say for sure how many short-sellers there are or how much money they invest.

During last year's financial crisis, short-sellers like James Chanos's Kynikos Associates, were the toast of the industry, gaining 28.25 percent while the average hedge fund lost 19 percent.

This year is a very different story. Several short-sellers, who asked not to be named for fear of being identified by corporations whose stock they are betting against, said investors were pulling more money out.

And new investors are not putting money in. Besides poor returns, investors are also worried that regulators could impose rules that would make shorting more difficult.

"There are still some dedicated short-sellers out there but we would not use them," said Stewart Massey, founding partner of Massey, Quick & Co, an investment consultant that helps clients put money with hedge funds.

(Reporting by Svea Herbst-Bayliss; Editing by Steve Orlofsky)

© Thomson Reuters 2009. All rights reserved. Users may download and print extracts of content from this website for their own personal and non-commercial use only. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.