

# news flash

hedge fund industry

## **M**arkets plunged sharply during latter part of July and continue to fall in August

World markets declined sharply during the latter part of July and continued their decline into August 2007. A major trigger for the decline was when US bank Bear Stearns, "spooked" the markets in July with news of major losses and accounting difficulties with its investments linked to US housing loans.

The Dow Jones Index broke through 14,000 points for the first time in its history in mid-July, but sentiment reversed sharply in the weeks that followed. Losses by other banks and investment funds led to what has been termed the "US sub-prime housing crisis" resulting in volatile markets and fears for the world economy.

## **T**o "ease" a worsening credit crunch – the Fed cut the discount rate

The ongoing liquidity concerns in markets led the Fed to cut the discount rate<sup>#</sup> in mid-August by 0.5%, down to 5.75% in an attempt to create more stability in the credit markets and to restore confidence in investors. This followed after all the major central banks injected billions of cash into the banking system to "calm" the markets.

[<sup>#</sup>the interest rate on direct loans to banks]

## **F**und of hedge funds "weathered the storm" in July following the impact of the sub-prime crisis in world markets

Fund of hedge funds on average yielded small positive returns in July as investment managers suffered from sharp falls in US, European and Asian equity markets. The HFRI Fund of Funds Weighted Composite Index was up by 0.43% for the month of July compared to the MSCI which was down 2.2% and the S&P 500 which was down 3.1%.

## **S**hort bias hedge fund managers "shine" amid gloomy July for a lot of hedge fund strategies

The month of July once again proved the importance of proper strategy and manager diversification across hedge funds. Short bias funds, which have had a tough time over the past four years, showed their "worth" by producing strong positive returns after the majority of the underlying hedge fund strategies were in negative territory. The HFRI short-selling index was up 6.49% with 11 of the 15 strategies yielding negative returns for the month. The returns of the hedge fund managers also varied a lot due to extreme market volatility.

## **W**orld's largest hedge funds increasingly active in areas that were previously the preserve of investment banks

Citadel, the Chicago-based hedge fund, has stepped in to take over the credit portfolio of Boston-based hedge fund i.e. Sowood Capital, after the manager incurred large losses in the credit markets. The aforementioned transaction demonstrates that in spite of market turmoil with fears over the extent of the credit crisis in the US and its potential impact on the wider financial markets, there is still money (i.e. hedge funds) on the sidelines waiting to "swoop" on cheap assets.

