View From a Currency Trader Part 3 - More "Bloodbath" Humor

A few new events from Hedge Fund Investment Land, for your reading enjoyment, Folks.

Up first, we have our latest financial "bloodbath" taking place. Now, a "bloodbath" in the financial markets such as the "stock market," (just to get on the same page as the "sophisticated" investors among us are on) is what is currently being referred to in our *crashing stock market* scenario.

Read the headlines. These tell your typical *hedge fund managers* what to do with your money, moment to moment.

In instruments designed to "preserve capital during violent market downturns," hedge funds would be... well, preserving capital during this crash. However, this doesn't seem to be the case. Apparently, modern hedge funds may be doing just the opposite.

From Google News search of "Worst Day Ever: Hedge Funds Hurting From Tuesday's Tumble," we get the following story:

March 1, 2007

Hedge funds were not immune from Tuesday's Wall Street bloodbath: According to Hedge Fund Research, Feb. 27 was the worst day it had ever recorded for hedge funds in the four-year life of its indices.

Macro funds suffered the worst drop, losing 3% to just about wipe out year-to-date gains. Market-directional funds, emerging markets and computer-driven managed futures funds were also hurting. Citigroup, in a note Thursday, wrote that the declines, "in conjunction with the long positions still shown by our credit survey… make us concerned about further de-risking ahead."

Arki Busson of the $10 billion fund of hedge funds EIM told the *Financial Times* that hedge funds had lost about two-thirds of their gains for February, but, "The good news is there were no disasters."

Yep! A 3% loss so far year-to-date but... *no disasters*. Yet.

Moving right along. From Yahoo! Markets section we get the following information: The stock market's high this year was 12,800. In the last 10 days, it "crashed" almost through 12,000.

Overall, that's not a bad thing IF you have control of your own money. On the other hand, if your money is "invested" with a hedge fund who supposedly can hedge so that "violent market downturns" preserve your capital, you're sitting pretty. Or, you may be out of luck.

That's the joke. Here's the punchline.

Looks like hedge funds are getting wiped. Well, isn't that a fine *la dee da.*

More to come? The answer may be found in the simple term, PANIC! The following days will tell the story.

Next up, we have Warren Buffett going on the formal quote, "slamming hedge funds." Found via a Google News search of a similar phrase brings up this story:

WARREN Buffett, the world's second richest person, stepped up his criticism of hedge funds, calling their fee arrangements "grotesque" and **cautioning shareholders against unrealistic return expectations.**

In the legendary investor's much anticipated annual letter to Berkshire Hathaway shareholders, he slammed "Wall Street's pied pipers of performance" and said **it was "folly" for investors to pay ever greater commissions and fees in an attempt to increase returns.**

You may want to pay particular attention to the next paragraph.

The Berkshire chairman, known as the Oracle of Omaha, said the right person [to succeed him] would be able to deal with t**he "bizarre" things markets do, going beyond standard investment techniques.** **"Certain perils** that lurk in investment strategies **cannot be spotted** by use of the models commonly employed today by financial institutions," he said.

He follows up by alluding that hedge fund managers get paid too much.

"Irrational and excessive compensation practices will not be materially changed by disclosure or by 'independent' comp committee members," he said.

Now in his 70s, looks like the money chieftain is having a good laugh at "sophisticated" investors' expense.

Next, we have the *Outstanding White Collar Crime of The Year Award* going to... surprise! *Hedge funds.*

Google news search of "SEC charges" currenty brings up 460 newscasts. Here's one of them:

March 1, 2007 - The U.S. Securities and Exchange Commission today charged 14 defendants in **a brazen insider trading scheme** that netted more than $15 million in illegal insider trading profits on thousands of trades, using information stolen from UBS Securities LLC and Morgan Stanley & Co., Inc. The SEC complaint alleges that eight Wall Street professionals, including **a UBS research executive and a Morgan Stanley attorne**y, two broker-dealers and a day-trading firm participated in the scheme. **The defendants also include three hedge funds, which were the biggest beneficiaries of the fraud.**

The scheme involved unlawful trading ahead of upgrades and downgrades by UBS research analysts and corporate acquisition announcements involving Morgan Stanley's investment banking clients.

The ringleaders of the UBS part of the scheme went to great lengths to hide their illegal conduct, first through a clandestine meeting at Manhattan's famed Oyster Bar and eventually the use of disposable cell phones, secret codes and cash kickbacks before the scheme unraveled.

According to the SEC complaint, Mitchel Guttenberg, an executive director in the equity research department at **UBS**, provided material, nonpublic information concerning upcoming UBS analyst upgrades and downgrades to traders Eric Franklin and David Tavdy, in exchange for sharing in the illicit profits from their trading on that information. Franklin and Tavdy illegally traded on this inside information personally, for the **hedge funds** Franklin managed, and for the registered broker-dealers where Tavdy was a trader. Franklin and Tavdy also had a network of downstream tippees who illegally traded on this inside information, including a third hedge fund, a day-trading firm, and three registered representatives at **Bear, Stearns & Co., Inc.**

Erik R. Franklin, age 39, who, at times during the relevant period, was a portfolio manager for the **Lyford Cay hedge fund** and an employee of Bear Stearns in New York, N.Y., an analyst for the **Chelsey Capital hedge fund** in New York, N.Y., and a portfolio manager for the **Q Capital hedge fund**. Franklin illegally traded on and tipped material, nonpublic information from UBS and Morgan Stanley.

The rest of Google news covers more of the event. *Tsk, tsk,* naughty boys!

Good luck to the hedge fund managers and their *sophisticated investors* in their stock market endeavors over the coming weeks and months! Tip: Be sure to include the word "PANIC" in your search for *long/short equity value.*

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