# Strategy Focus: Short Bias

## Last 12 Months, Percent Returns, Short Bias Funds

The charts below present the aggregate performance of short bias hedge funds, according to HedgeFund.net-PerTrac Universes, a feature of PerTrac Online. HedgeFund.net-PerTrac Universes charts the aggregate performance of a total of 33 different hedge fund strategies.

| | Aug 2007 | Jul 2007 | Jun 2007 | May 2007 | Apr 2007 | Mar 2007 | Feb 2007 | Jan 2007 | Dec 2006 | Nov 2006 | Oct 2006 | Sept 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funds In Universe | 24 | 27 | 28 | 30 | 31 | 31 | 32 | 32 | 30 | 30 | 31 | 32 |
| Mean | 0.43% | 4.05% | 1.66% | -1.62% | 1.52% | 4.48%% | 4.48%% | 6.32% | 0.85% | -1.55% | -3.35% | -1.71% |
| Standard Deviation | 2.19% | 3.21% | 2.41% | 3.26% | 18.55% | 17.98% | 17.61% | 28.18% | 1.90% | 3.24% | 3.53% | 2.62% |
| 10th Percentile | 3.87% | 7.98% | 4.32% | 1.30% | 2.10% | 6.02% | 4.48% | 3.98% | 2.38% | 1.31% | 0.10% | 0.10% |
| 25th Percentile | 1.30% | 6.56% | 3.72% | 0.81% | 0.25% | 2.31% | 2.71% | 1.06% | 1.16% | 0.30% | -0.39% | -0.42% |
| 50th Percentile | 0.35% | 4.58% | 1.62% | -3.53% | -2.40% | 0.86% | 1.28% | -1.62% | 0.91% | -2.19% | -3.44% | -1.68% |
| 75th Percentile | -1.15% | 1.18% | 0.34% | -3.65% | -3.60% | -0.61% | 0.09% | -2.30% | -0.17% | -3.28% | -5.04% | -2.57% |
| 90th Percentile | -2.44% | -0.50% | -1.35% | -4.27% | -4.80% | -1.11% | -1.77% | -2.32% | -1.23% | -5.10% | -5.48% | -3.28% |
| All Funds, Mean | -1.79% | 0.26% | 0.79% | 1.95% | 1.75% | 0.86% | 0.65% | 1.21% | 1.66% | 1.82% | 1.67% | 0.04% |

## Emerging Markets Funds Performance, By Calendar Year

| | 2007 YTD | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| Funds in Universe | 24 | 25 | 32 | 31 | 36 | 33 |
| Mean | 1.58% | -6.95% | 5.54% | -5.45% | -16.68% | 23.28% |
| Standard Deviation | 6.04% | 10.48% | 15.08% | 12.48% | 19.40% | 21.84% |
| 10th Percentile | 9.26% | 3.69% | 23.56% | 9.89% | 9.80% | 63.23% |
| 25th Percentile | 6.39% | -1.68% | 8.59% | 6.96% | -2.85% | 25.15% |
| 50th Percentile | 0.44% | -4.33% | -0.38% | -11.38% | -26.93% | 17.69% |
| 75th Percentile | -1.65% | -11.91% | -2.73% | -14.47% | -29.79% | 9.95% |
| 90th Percentile | -5.49% | -16.46% | -7.25% | -18.33% | -35.65% | 7.23% |



Dataview Analysis

## Short Bias Getting Short End of the Stick in 2007

BY CHRISTOPHER GLYNN | A short-bias manager for more than a decade, Parker Quillen is not about to fret over a bull market. True, a bull market is anathema to short bias, but a veteran like Quillen can compensate with deft maneuvering. Nevertheless, even Quillen is willing to acknowledge that 2007 has been hair-raising for shot bias—a strategy based on profiting from the market going down, rather than up.

"It has been a stiff headwind," Quillen, head of Quilcap Corp., admits.

Quillen has a macro- and micro-themed approach to short bias. He will look for a mispriced security, but also consider central banking—like a fundamental investor. His short-bias hedge fund has performed well and, despite his leeriness about the continued impact of the Federal Reserve Bank on the stock market, Quillen is confident that he can navigate the latest market bubble.

"We are short bias so we do go long," he says. "But we are net short."

Timothy Sykes, meanwhile, is not optimistic.

A month-after-month dearth of short-bias opportunity has dogged his Cilantro Fund Management. As an investor, Sykes will short micro- and small-cap businesses that he has judged overvalued. But the momentum in the stock market has kept valuation overall high.

"It has been next to impossible to be short," Sykes says.

It was not until August, just when most of the asset class was reeling, that the strategy got some breathing room.

A shakeup in global credit resulting from the collapse in subprime mortgage produced equity market volatility—a profit catalyst for short bias.

The HFN Short Bias Average returned 0.43% for the month. In July, as the subprime mortgage crisis raged, the index boasted a 4.05% gain. Just a little more than a month earlier, the strategy had been bombing. In May, short bias lost 1.62%.

However, the letup did not redeem short bias.

"I would not call it a bonanza," Quillen says.

At the same time, no one is expecting the market to turn bear and help the strategy rebound. "I think the market is going to end

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at 1,400," says Sykes. "This is just not a good time to be a short-bias hedge fund."

And that is a bold statement, considering how long short bias has been successful. The history of short bias, or shorting or short-selling, is as old as the advent of the stock market itself.

In 1602, the Dutch, who established the first stock exchange in the world, put a "buy" rating on United Dutch East India Co. The efficient Amstel River route the company established with India, coupled with demand for merchandise from the continent, fueled speculation.

While UDEI funded its shipbuilding program with the influx of new investor capital, some in Amsterdam—calling UDEI too ambitious—short sold their stock on the belief the company had peaked.

Throughout its history, sentiment for and against the strategy has run strong. A short-bias manager can either be seen as a greedy saboteur or a no-nonsense business mind.

Jesse Livermore, who short sold his portfolio just before the 1929 stock market crash, was the most-hated investor of his era. Dubbed the "Boy Plunger," Livermore made $100 million off his short, and was blamed as the cause of the crash itself.

In 1940, Livermore committed suicide—a fate in stark contrast to the architect of the most-celebrated short call in recent history: George Soros.

In 1992, Soros made $1 billion overnight when the hedge fund pioneer short sold the British pound. The short earned the Hungary native praise as a daring investor willing to buck convention. He is today worth $8.5 billion and is a well-known philanthropist and political activist.

The strategy has also become an effective scapegoat. In 2005, Overstock.com head Patrick Byrne blamed since-retired short-bias manager David Rocker for the falling stock price of his dotcom. Allied Capital Corp., meanwhile, accused short-bias upstart David Einhorn of a smear campaign aimed at driving down its stock price.

The strategy was even floated as a culprit in the most-famous corporate scandal of its era: the collapse of Enron Corp.

Bogeyman connotation aside, 2007 has found the strategy going through a harsh spell. In general, the asset class has not been able participate in the bull market. But short bias has a casualty.

Quillen, based in New York, mused over how investor optimism has hurt the strategy.

"For me, the hardest part of this has been whenever there is an emotionally-charged spike," he says.

> "It has gone up and up," Sykes says. "The worst part is just when there is a little crack and it is looking like it might go down, there is a rebound."

For example, the recent interest rate cut from The Fed sent the stock market surging, Quillen said. To him, The Fed is still enabling an economic bubble rather than letting the market shake out.

It has been a tough year all-around for Sykes.

Despite coming into his own as a market commentator on CNBC as well as authoring a book on trading, Sykes has been plagued with sub-par performance.

"[The year] 2002 was not a good time to start a short-bias hedge fund," he half-jokes.

Sykes, who began trading in high-school, is used to the high-pressure game of holdout involved in short bias. For him, it is a question of not blinking first: sell a stock at its most overvalued price for a gain just before its plummet. But this year, "the crap is rising," he says.

"It has gone up and up," Sykes says. "The worst part is just when there is a little crack and it is looking like it might go down, there is a rebound."

Case in point: the global credit crisis.

"The credit shakeup scared a lot of people, but we are still in a bull market," he says.

Next month, Sykes is closing Cilantro Fund Management in order to focus on his career as a talking head. He will still trade his own money, and Sykes is a still short-bias inclined.

"I cannot go long," he says.

For his part, Quillen is bearish on the Fed.

"Every time there is a bubble burst, the Fed will pump liquidity into the market," leading to another bubble, Quillen says.

"The last time it was the Internet, now housing," he says.

If the Fed is in the business of mitigating fallout, then a shakeout, or bear market environment that would readjust the system—and give short bias some ammunition, will not occur, according to Quillen.

For Sykes, short bias will need to settle for now.

"Trade conservatively," he says. "Aim for a modest gain."