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Pessimistic? Unpatriotic? You're A Short-Bias Fund

 by [Christopher Glynn](#), Reporter April 4, 2005

Once widespread optimism for Ipix Corp. matched his native pessimism, Timothy Sykes knew his hedge fund would profit.

Ipix had received an endorsement from Rep. Zack Wamp (R-Tenn.) who, as a hard-line member of the Homeland Security Subcommittee, stated his hope the surveillance system Ipix developed would soon see implementation nationwide .

"We need this camera," Wamp declared, pitching a government contract for the business, which is headquartered in the representative's home state.

While Ipix climbed from \$1 to \$9 per share over the following month, Sykes did what he did best - he sold his stake in the Oak Ridge, Tenn.-based imaging technology outfit.

Sykes, the 23-year-old founder of Cilantro Fund Management, profited \$8 per share selling Ipix, which has since cooled at \$3 on Nasdaq. Overseeing a \$1.4 million short bias fund, Sykes expounded on the sober mindset of his chosen strategy.

"People get overexcited based on a margin call or analyst coverage," says Sykes, based in Orlando, Fla. "A product rollout is another perfect example, because people do not see the marketing cost involved and the cost of maintaining a product."

Call it non-suspension of disbelief or pessimism; both have long been essential in short bias.

An ironclad stomach would also help. In 2003, short bias posted a 12.81% loss and about a 4% loss in 2004, according to the HedgeFund.net-PerTrac Universes. Should equities rally, the strategy will suffer, says Chuck Zender, co-portfolio manager at Leuthold Weeden Capital Management.

"Each major index had posted a gain in 2003," Zender says. "You need a softer market." The

strategy has made a comeback in 2005, posting a 5.54% return, according to the HedgeFund.net-PerTrac Universes.

"The market is down," Zender explains. "The idea is to not lose much in a bull market and to make the loss up in a bear market."

Short selling can claim its history alongside investing. 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 wild speculation.

While UDEL funded its shipbuilding program with the influx of new capital from investor money, some in Amsterdam - calling UDEL too ambitious - sold short their stock in the merchant marine outfit on the belief the company had peaked in 1602.

The Dutch who shorted UDEL stock, however, proved too pessimistic; the merchant marine outfit would prosper until 1800.

Although short selling has a storied past, the term short bias has less than a decade-long track record. Prior to short bias, the fund industry practiced "short only" - a limited strategy based on shorting just equity. The bull market of 1994 to 2000 decimated short only and birthed the more flexible short bias style, which can take long positions.

The re-christened strategy could prove a misnomer, says one veteran short bias manager who believes the short bias moniker could cover what would count as a long-short equity fund.

"Half of the short bias people are long-short," the manager says. "And when I hear long-short, then I know the actual portfolio is long."

Rick Semels, chief executive officer of North Coast Asset Management, said his \$35 million alternative investment business launched a short bias offering in July 2003 because the strategy had gathered momentum.

"People understand how the market can go down and want to be positioned," says Semels, based in Greenwich, Conn. "It can fill a niche."

His short bias fund has \$950,000 in capital.

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HedgeFunds Sorted By Return

HedgePlus Fund Performance for Nov 06				44
Name of Hedge Fund	Returns	Strategy	RF	
The Prudent Global Natural Resources Fund, LP	12.30%	Long/Short Equity	View	
Select Contrarian Value Partners, L.P.	9.80%	Value	View	
Altissimo Fund, L.P.	9.64%	Long/Short Equity	View	
Forza Partners, L.P.	7.58%	Long/Short Equity	View	
Nanocap Fund, L.P.	6.27%	Small/Micro Cap	View	
Mercury Real Estate Securities Fund LP	4.10%	Long/Short Equity	View	
DSC Alpha, LP	3.54%	Market Neutral Equity	View	
Sciens Fund of Hedge Funds, L.P.	3.45%	Fund of Funds - Multi-Strategy	View	
AJW Qualified Partners, LLC	3.45%	Regulation D	View	
AJW Partners LLC	3.34%	Regulation D	View	
Portage Partners, LP	3.25%	Macro	View	
LJM Partners, LTD	3.10%	CTA/Managed Futures	View	
Triumph Fund II	2.71%	Long/Short Equity	View	
Barington Companies Equity Partners, L.P.	2.64%	Event Driven	View	
Triumph Fund, LP	2.62%	Long/Short Equity	View	
Capital Z Access Fund, L.P.	2.43%	Fund of Funds - Multi-Strategy	View	
LJM Fund, LP	2.33%	CTA/Managed Futures	View	
Broadreach Growth Fund, L.P.	2.15%	Long/Short Equity	View	
Nite Capital LP	2.07%	Multi-Strategy	View	
Winners Circle Fund, LP	1.90%	Fund of Funds - Multi-Strategy	View	
Pinnacle Fund	1.80%	Fund of Funds - Single Strategy	View	
Summit Private Investments I, LP	1.77%	Fund of Funds - Multi-Strategy	View	
Fertilemind Capital Fund I, L.P.	1.74%	Small/Micro Cap	View	
GPS Income Fund LP	1.74%	Event Driven	View	
Cross River Partners	1.59%	Long/Short Equity	View	
GPS High Yield Equities Fund LP	1.52%	Event Driven	View	
Whalehaven Capital L.P.	1.29%	Regulation D	View	
Horizon Fund, L.P.	1.28%	Fixed Income Arbitrage	View	
Longview Fund L.P.	1.08%	Convertible Arbitrage	View	
Innovative Options Fund, LP	0.98%	Options Strategies	View	
Cornell Capital Partners, LP	0.92%	Regulation D	View	
Cornerstone Icon Fund, L.P.	0.92%	Macro	View	
Dutchess Private Equities Fund II LP	0.83%	Regulation D	View	
Pinnacle Opportunity, L.P.	0.80%	Fund of Funds - Multi-Strategy	View	
Dutchess Private Equities Fund L.P.	0.79%	Regulation D	View	
Talisman Partners LLC	0.77%	Fixed Income (non-arbitrage)	View	
INTL Consilium Emerging Market Absolute Return Fund LLC	0.50%	Emerging Markets	View	
Gramercy Emerging Markets, LLC	0.49%	Emerging Markets	View	
Haber Partners L.P.	0.31%	Long/Short Equity	View	
Parallax Fund, L.P.	0.15%	Options Strategies	View	

Leuthold Weeden's Zender, overseeing a \$31 million short bias fund based in Minneapolis, adds the strategy has less of a long-term implication.

"In a historical perspective, a bear market has a 12-to-14-month lifespan," Zender says. Zender categorized his fund as "short only" rather than "short bias."

Zender also addressed the ongoing tax-law revamp that began in 1998, which has discouraged short-term profiting overall.

"Tax on long-term gain is at its lowest historic level," Zender notes. He emphasized an individual short-bias investor would feel the impact of the tax while an institutional investor would not. Regardless, the touted tax law has scared people away from the strategy.

The legislation hindering short-term profit could reflect a deep-seated and longstanding dislike of short selling; a strategy with historic baggage filled with negative connotation. Sykes cited Jesse Livermore - both the best known and most-hated short seller in history.

Livermore, a manic-depressive whose mental illness would result in periodic homelessness until he committed suicide, predicted with aplomb the stock market crash of 1929. His reputation preceded him and Wall Street ridiculed his alarmist talk.

Vindication for Livermore came when he made \$100 million shorting his portfolio. As a consequence, Livermore earned the moniker of "The Boy Plunger." Blamed for the stock market crash, he lived out the remainder of his troubled life receiving death threats and hate mail.

A veteran short bias manager cited rationalism rather than patriotism as the true nature of the stock market.

"I have taken heat for short bias," the manager admits. "The stock market has never been the place for patriotism, it has been about profit. People who would have us believe otherwise are just out to insult the intelligence of people, because the idea is irrelevant."

Sykes, for his part, said short bias has helped, rather than hindered, the stock market.

"I think it is unpatriotic how some stock is

overvalued," Sykes says. "True, we sell at the top and it can cause panic, but some businesses have had their stock price rise when it is not deserved."

Another short bias veteran, David Rocker, bristled at the negative label with which his chosen strategy has been saddled.

"I am proud of what we do," Rocker, partner of 20-year-old Rocker Partners, says. "Short selling has provided a meaningful function with all the positive bias in the industry."

Rocker, overseeing \$900 million in short bias, called the idea of his strategy driving down stock price "a misnomer."

"The whole argument is a red herring," he says. "Selling on an up-tick cannot drive the price down."

Rocker says he will remain committed to the strategy.

"I am bullish on short bias," he says. "I think, as a contrarian, now is an opportune time. Abandoning short bias because of a bad 2003 would be like abandoning the Nasdaq because it had a bad 2002.

"I am bullish on shorting right now because so few people are," he says.

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