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How Japan Dealt a Double Blow to Hedge Funds

To the banker-poet T.S. Eliot, April was the cruelest month.

But for many hedge fund traders who take bets on economic trends around the world, March was the cruelest they can remember.

“We just got whacked. Japan was a double hit—killing our longs and our shorts,” a young hedge funder said at a beer garden in Manhattan’s meatpacking district.

One of the most popular positions for many global macro hedge fund managers was shorting clean energy companies—especially solar companies—and ETFs associated with clean energy indexes. On December 1, Bloomberg reported that seventeen percent of the freely traded shares of the 35 U.S. stocks in the WilderHill New Energy Index were sold short. Many expect that this only increased in January and February.

Similarly, many hedge fund investors believed that uranium was due for a boost—thanks in part to rising cost of oil.

Instead, the trade went exactly the other way. Clean energy rallied, uranium fell. The rally in clean energy has retreated somewhat in April—but it lasted long enough that many funds were scared off their short positions. And it made the monthly letters many hedge funds send to investors especially ugly.

“We’re doing okay now. But it seemed like everything went wrong in March,” another hedge funder mumbled into his beer.

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But hedge funds taking bets on macro-economic events and trends suffered in March. The Morningstar Global Non-Trend Hedge Fund Index decreased 1.7 percent for month. Morningstar's Global Trend Hedge Fund Index, which includes funds that trade futures primarily according to momentum strategies, did not fare much better. It declined 1.3 percent for the month.