THE EMPIRICAL STUDY OF EQUITY LONG ONLY HEDGE FUNDS PERFORMANCE IN 2007 - 2008

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Abstract

The purpose of the research is to measure the investment results of hedge funds in 2007 and 2008 that is during the bull and the bear market. The S&P500 index was used as a benchmark. It was shown that the majority of institutions whose aim is to generate absolute rates of return, and what refers to it, to generate better rates of return than traditional investments irrespective of the market situation, broke this rule. Such measures were taken into consideration as: rates of return, risk measured by standard deviation, risk measured by beta, the level of alpha, the correlation of the examined funds with traditional assets and the Sharpe ratio.
The research presented in the paper is a part of the wider research conducted by the author for over 200 hedge funds divided into different investment strategies. The paper deals with 20 hedge funds chosen at random from those which applied the equity long only strategy in the examined period.

JEL classification: G11, G15, G32

Keywords: hedge funds, investments

Introduction

Traditional investments (like stocks or bonds) results are compared to certain benchmarks that are usually stock or bond indexes. This kind of approach is not used by hedge funds managers. In this case, the aim of an investment is not to achieve the rate of income better than the market but an absolute and attractive rate of income no matter what the situation on the global financial market is. These institutions should be characterized by the risk directly deriving from the strategy used by them, not from the market situation. The factor that differentiates a hedge fund from other hedge funds is the level of alpha coefficient.
S.J. Brown, W.N. Goetzmann and R.G. Ibbotson examined the off-shore hedge fund industry over the period 1989 through 1995 using a database that includes both defunct and currently operating funds. They come to the conclusion that the industry is characterized by high attrition rates and low covariance with the U.S. stock market. Besides, offshore funds as a group have positive risk-adjusted performance when measured by Sharpe ratios and by Jensen’s alpha.

They also point that little public information is available about the investment strategies and specialization of these mangers.[1] As it is shown beneath, the author's conclusions about hedge funds performance differ from this research. They let assume that hedge funds are no longer as good tools for making money as they used to be a few years ago.

1. The aim and the scope of the research

The research presented in the paper was done on the basis of 20 hedge funds that use equity long only strategies. They were chosen at random from the data base prepared by BarclayHedge and Global Fund Technologies which comprises about 2000 hedge funds applying different investment strategies. The aim of the research is to measure the investments results of hedge funds in 2007 and 2008 that is during the bull and the bear market. The S&P500 index was used as a benchmark. It was shown that the majority of institutions whose aim is to generate absolute rates of return, and what refers to it, generating better rates of return than traditional investments irrespective of the market situation, thus also during the bear market, broke this rule. Such measures were taken into consideration as: rates of return, risk measured by standard deviation, risk measured by beta, the level of alpha, the correlation of the examined funds with traditional assets and the Sharpe ratio.

Given the fact that the paper was prepared at the end of 2008, data from January 2007 until November 2008 were taken into consideration. It let examine the results of hedge funds both during favorable market conditions and during the bear market on global financial markets. In the first part of the paper the author gives the detailed characteristics of investment strategies used by the examined hedge funds.

2. Hedge funds investment results measurement – focus on theory

All hedge funds claim to do something highly exclusive and proprietary and anxiously guard their trading secrets. Although transparency has improved with the arrival of institutional investors, hedge fund investors are seldom told what exactly goes on inside the black box. As a result, it can sometimes be very hard to properly assess the risk-return characteristics of a fund.[2] Apart from standard characteristics like rates of return, standard deviation, correlation, hedge funds' performance is usually measured by beta and alpha. The overall measure used in this industry is the Sharpe ratio which covers both risk and rates of return. The paper does not concentrate on the idea of these measures, however the

[1] For details see: S.J. Brown, W.N. Goetzmann, R.G. Ibbotson, Offshore Hedge Funds: Survival & Performance 1989 – 1995, p. 1 – 20.

[2] H.M. Kat, H.P. Palaro, Who needs hedge funds? A Copula-Based Approach to Hedge Fund Return Replication, Cass Business School, City of London, November 23, 2005, p. 7.

author will give a brief point on the most important things concerning beta and alpha, so as to make the empirical results more understandable.
In a nutshell, beta is a measure of a fund's amount of dependence on the return of the market. The concept is rooted in portfolio theory pioneered by Harry Markowitz in the 1950s, which has evolved to express the relationship between risky assets, such as stocks, and the market (Tran; 2006, 51). Hedge funds offer three types of beta benefits: (Gregoriou et al.; 2005, 33)

- Traditional beta benefits emanating from exposure to stock and bond returns
- Beta benefits emanating from exposure to other risk factors in equity markets, such as small-cap versus large-cap spread, value versus growth spread, or implied volatility, and in bond markets, such as term spread, credit spread, or bond returns volatility
- Other alternate beta benefits, such as commodity price levels or currency rates.

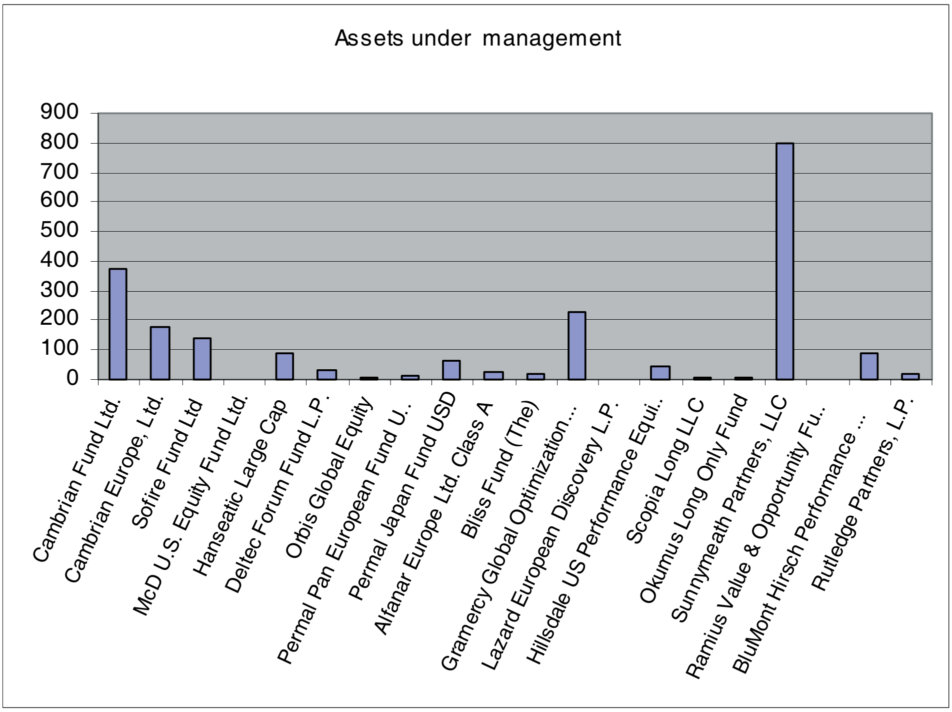
The beta measure is connected with a risk premium that is a part of the CAPM.[3] Hedge funds are supposed to be free from the market, free from its vagaries and fluctuations and risks. The values of their beta are supposed to be very low or near zero. For a fund manager to achieve such a feat, he or she must have exceptional skills or talent. That is why alpha is often claimed to be synonymous with a portfolio manager's talent or skills.[4]

3. Hedge funds assets and investment strategies

The examined hedge funds have various amount of assets under management (see chart 1). It is worth emphasizing at the beginning that one of the funds, i.e. Ramius Value & Opportunity Fund Ltd., does not reveal the amount of assets under its management, so it can not be taken into consideration in this analysis. The biggest assets out of the 19 hedge funds left have: Sunnymeath Partners, LLC (800 thousand dollars), Cambrian Fund Ltd.(377 thousand dollars) and Gramercy Global Optimization Fund Ltd.(231 thousand dollars). The three funds with the smallest assets are: Lazard European Discovery L.P.(with its assets of 2,49 thousand dollars), McD U.S. Equity Fund Ltd.(having assets equal to 3 thousand dollars), Okumus Long Only Fund (managing assets of 4,5 thousand dollars). Such diversified amount of assets proves additionally that funds were chosen at random.

Chart 1. Assets under management of the examined funds [thousands of dollars]

[3] See further: W.F. Sharpe, Capital Asset Prices: A Theory of Basset Equilibrium under Conditions of Risk, Journal of Finance, 1964, Vol. 19, No. 3, p. 425 – 442.
[4] V.Q. Tran, Evaluating Hedge Fund Performance, John Wiley & Sons, Inc., Hoboken 2006, p. 52.



Source: prepared by the author on the basis of data provided by BarclayHedge and Global Fund Technologies.

The investment strategies applied by the examined hedge funds are varied. Although every fund has its own investment policy, they have something in common. These are investments in equity with long positions only. This is why they were classified as equity long only funds by data providers. Details concerning investment rules of each of the examined funds are gathered in table 1.

Table 1. The spectrum of investments of the examined hedge funds.

The name of the fund	**The spectrum of investments**
Cambrian Fund Ltd.	Invests only in U.S. publicly-traded equity securities, concentrating capital and research on five to six investments at any given time, with a twelve to twenty-four month holding period. Focus on quality, mid-cap, medium-to-low tech industrial products and services companies which are temporarily out-of-favor and candidates for earnings turnaround, restructuring and/or takeover. Research approach: bottom-up, value, fundamental and hands-on. Uses constructive shareholder activism, where appropriate. Due to high degree of concentration, correlation with the U.S. equity market is relatively low. Monthly volatility may be above equity market volatility. Selective use of leverage. No use of

	futures, options or short sales. Typical equity market exposure range of 60%-140% of net assets. AUM (assets under management) reflects total assets of the strategy.
Cambrian Europe, Ltd.	The Fund invests only in European publicly-traded equity securities, concentrating capital and research on five to six investments at any given time, with a twelve to twenty-four month holding period. The focus is on quality, mid-cap, medium-to-low tech industrial products and services companies which are temporarily out-of-favor and candidates for earnings turnaround, restructuring and/or takeover. Research approach: bottom-up, value, fundamental and hands-on. The Fund uses constructive shareholder activism, where appropriate. Due to a high degree of concentration, correlation with the non-U.S. equity market is relatively low. Monthly volatility may be above equity market volatility. Selective use of leverage. No use of futures, options or short sales. Typical equity market exposure range of 60%-140% of net assets. AUM (assets under management) reflects total assets of the strategy.
Sofire Fund Ltd	By extensive fundamental bottom-up research, we identify companies with quality businesses selling at a significant discount to their intrinsic value. These securities often are identified in the following categories: 1) Small market capitalization, 2) Hidden earnings, 3) Hidden assets, 4) Long busines cycles, 5) Complicated capital structure, and 6) Special situations. The Fund invests globally. Security selection is value-driven. The Fund, which has the ability to short, is typically a long-only fund.
McD U.S. Equity Fund Ltd.	The Fund's investment objective is to achieve long-term capital growth by investing in equity securities of companies which the Investment Advisor believes are sound but undervalued. Securities of a company may be undervalued for a variety of reasons including: over-reaction by investors to unfavourable news about a company, industry, or the stock market in general, or as a result of a market decline, poor economic conditions, tax-loss selling, or actual or anticipated unfavourable developments affecting the company. The Fund will invest primarily in common stock of larger, listed companies with a record of earnings and dividends, low price-earnings ratios, reasonable returns on equity, and sound finances which, in the opinion of the Investment Advisor, have intrinsic value. It is anticipated that most stocks purchased will be listed on the New York Stock Exchange, but the Fund may also purchase securities listed on other securities exchanges and in the over-the-counter market. The Fund may also buy and sell securities index futures and options thereon.
Hanseatic Large Cap	Hanseatic's investment process is the combination of proprietary buy/sell disciplines, bottom-up portfolio construction and risk management methodology. The objective of the investment process is to create positive risk-adjusted alpha in a consistent way. The buy disciplines entail a proprietary trend measurement which takes into account three operative time dimensions - monthly, weekly and daily. The purpose of the buy disciplines is to identify stock price trends which in aggregate have the potential to persist into our target holding period (6-36 months). Our research has shown that there are time boundaries in the relevant time dimensions which also play an important role. It is the intersection of multi-time dimensional trend

	measurement and time boundaries that is the foundation of our buy disciplines. The sell disciplines are designed to identify points in time when the risk-reward relationship over an intermediate time frame becomes unfavorable. Changes in the risk-reward relationship may follow a period of objectively-measured underperformance relative to the benchmark or coincide with various gauges of excess volatility. The purpose of the sell disciplines is to control individual security risk in a consistent manner while allowing individual stocks with positive intermediate-term alpha to remain in the portfolio. Each stock is subject to defined, albeit dynamic, risk management. Portfolio construction is a bottom-up process which manages overall portfolio risk by way of position-sizing and diversification. The buy disciplines over and underweight market sectors and industries by adapting to relative market leadership in a dynamic way. However the weightings have guidelines defined for sectors and industries, +/- 10% and +/- 5% respectively. Initial position sizing ranges from 0.5-1% of the portfolio. Intelligent diversification is a cornerstone of our investment process. The cumulative investment process enables portfolios that are adaptive to changing market environments and achieve positive alpha in a consistent manner. Through ongoing research the company endeavors to improve its alpha-generation capabilities and its ability to manage the portfolio risk-reward relationship. The company has evolved with the experience and development of its investment professionals. This will remain a key goal. Mgmt. Fee: 0-10MM - 80bps; 11-25MM - 60bps; 26+MM - 40bps.
Deltec Forum Fund L.P.	The investment objective of the Partnership is to seek long-term capital appreciation through investment primarily in the equity securities of undervalued domestic and foreign companies and domestic and foreign corporate and governmental high yield debt instruments which the Investment Manager (as defined below) believes have a significant potential for price appreciation. Current income is a secondary objective. In particular, the Partnership's investment focus is on common stocks and high yield, lower-rated bonds with various maturities. There can be no assurance that the Partnership will achieve its investment objective.
Orbis Global Equity	The Fund invests in equities globally on a long-only basis using a value-oriented approach.
Permal Pan European Fund USD Class A	Invests primarily in equity securities of large and small companies domiciled or with primary operations in Europe. Stock selection reflects a value and growth style. The Fund seeks to capitalize on mispriced companies due to investor emotions or neglected opportunities. The Fund seeks to take advantage of opportunities arising from privatization, the reduction of trade barriers and progress towards economic and monetary union in Europe. Focus will primarily be on Western European countries but may invest up to 15% in Eastern Europe. Active hedging of current risk employed for US$ and EUR class shares. Management fee may be up to 5.5%. AUM reflects both currency classes. The Investment Advisor to the Fund is State Street Global Advisors United Kingdom Limited. AUM combines all currency and share classes.
Permal Japan Fund USD	Invests primarily in equity securities and ADRs of large and small companies domiciled or with primary operations in Japan.

	Diversification of assets across a wide range of industries and companies with a good level of liquidity and strong fundamentals (cash flows, management, market position) in the opinion of the advisor (State Street Global Advisors United Kingdom Limited). Advisor employs both top-down and bottom-up research and evaluation. Management fee can be up to 5.5%. AUM reflects both currency classes.
Alfanar Europe Ltd. Class A	The objective of the Fund is to invest in the equities of publicly traded European stocks that comply with Islamic investment criteria. The Investment Manager, TT International Investment Management, pursues an investment strategy which combines detailed stock selection with an awareness of geopolitical conditions. To implement its strategy, the Investment Manager uses a three part stock selection process to: 1) Identify companies that display value in the form of assets or earnings. 2) Verify valuations through the use of various models and information obtained from academic or industrial experts. 3) Look for a catalyst to unlock the value that it has identified.
Bliss Fund (The)	Bliss Fund employs a proprietary quantitative trading system that seeks to identify and exploit trends in the price movements of securities. The system attempts to obtain extraordinary returns by switching between securities and cash (or cash equivalents) on the basis of the buy or sell signals generated.
Gramercy Global Optimization Fund Ltd.	The Fund is a long-only equity fund that invests in underlying closed-end equity funds. It can use leverage (but hasn't), and does not go short. It has a management fee and a performance fee charged on excess performance above a global equity index. The Fund uses a mean-variance optimization process to select a global portfolio of closed-end funds and exchange traded funds (ETFs).
Lazard European Discovery L.P.	The investment strategy of Lazard European Discovery is to seek to achieve long-term capital appreciation by investing in up to 40 equity securities focusing primarily on companies located in Europe that have a market capitalization of approximately EUR 1 billion or less. The Fund utilizes an active bottom-up approach to stock selection and seeks to invest in under-valued companies with improving or sustainable financial productivity and superior business attributes such as high barriers to entry, superior products or services, and/or excellent management. Companies are evaluated according to the appropriate measures for financial productivity and valuation for their respective industries. The Portfolio Management Team focuses on metrics that have successfully predicted performance in the past. The Team believes that understanding a company's operating model and the sustainability of its franchise is key to understanding the valuation drivers. Country or regional allocations are an outcome of the stock selection process. The investment universe consists of approximately 1,400 European companies with a market capitalization between EUR 150 million and 1 billion. The European small cap market can be relatively inefficient and offers attractive investment opportunities. Through detailed analysis, the Team identifies catalysts and opportunities to generate attractive returns. The asset class advantages are: 1) Compelling opportunities - Numerous companies with attractive risk/reward tradeoffs remain under-invested as a result of low liquidity. 2) Limited coverage - Limited sell-side coverage provides the opportunity to

	invest in undiscovered companies. 3) Attractive ownership structure - Many family-owned/limited free-float companies are increasingly willing to access the capital markets. 4) Growth potential - Significant upside and potential for valuation re-rating.
Hillsdale US Performance Equity A	The investment objective of the strategy is to provide a three year rate of return on capital in excess of the Russell 2000 Index with volatility equal to or less than the Index. The Fund invests a minimum of 75% of its assets in a diversified selection of small to medium capitalization United States corporations trading on major US stock exchanges. No equity holding of a single corporation, either through direct holdings or indirectly though an investment in another investment fund, will exceed 5% of the Fund's assets.
Scopia Long LLC	The Fund's investment objective is to achieve attractive rates of return primarily by investing in the publicly traded equities of companies. The investment strategy utilized by the investment member is a long only value-oriented approach which seeks to identify and purchase stocks that will appreciate over a several year period, although returns will be affected by the performance of the overall market. Redemptions - Quarterly - 60 days' prior written notice / Monthly - 125 days' prior written notice
Okumus Long Only Fund	The Fund, which has a domestic and offshore version, aims to give professional investors a total return vehicle comprising of long equities. Okumus Long Only Fund will invest in securities of companies by employing a deep value-oriented investment process and selecting securities based on bottom-up analysis that focuses on the specific fundamentals of individual companies. The Fund's portfolio will comprise mainly of US equities with to mid to large market capitalization across various industries bought at prices that are tremendously discounted to the companies' intrinsic value. The Fund will not place bets on the market direction. The Fund will not deploy any leverage and will not use any derivatives.
Sunnymeath Partners, LLC	The principal objective of the Fund is to realize consistently superior long-term growth of capital while mitigating risk. Utilization of bottom-up fundamental analysis with an emphasis on cash flow guides investment discipline. The Fund de-emphasizes technology and financial service sectors and over-emphasizes materials, industrials, consumer discretionary and health care sectors relative to benchmark. The General Partner believes that significant alpha can be achieved by capitalizing on market opportunities in companies large and small, which it believes are significantly undervalued relative to their growth potential. By concentrating on a relatively small number of companies at any one time, the General Partner believes he can trade opportunistically around these value-oriented investments with thorough and reliable information about each company through intensive research, contacts with company management and industry seminars. The General Partner has over 25 years experience analyzing and managing assets and has been following a core group of 200 companies as possible purchase or short candidates for over 20 years.
Ramius Value & Opportunity Fund Ltd	Ramius Value & Opportunity Fund Ltd invests primarily in the securities of U.S. public companies that the Fund believes are deeply undervalued by the marketplace. Typically, these companies trade at a discount to their intrinsic value due to management or capital structure-

	related issues, and have been identified through traditional, fundamental value analysis as well as through industry knowledge and corporate relationships. Realization of value may occur through a change in ownership, corporate direction or management, or from operational improvements. The Fund may make investments alone or together with one or more other investors or investment managers, acting as a group in order to maximize resources and influence the desired outcome. The Fund (either alone or together with other members of the group) may take significant minority stakes or acquire a "control" position in the portfolio companies' securities. The Fund will target net annualized returns over a complete market cycle of approximately 20%.
BluMont Hirsch Performance Fund	The BluMont Hirsch Performance Fund's objective is to achieve above average long-term capital growth by investing primarily in Canadian corporations with superior fundamentals and growth profiles, encompassing companies with a range of capitalizations.
Rutledge Partners, L.P.	Rutledge Partners is a long-biased U.S. equities program. Our trading discipline is basic and straight forward. We look for the best execution on our holdings. Initial positions are small, as fundamental and technical aspects of the stock improve, we will buy up. We look for continuous validation that the company is on target fundamentally. We do not have a hedging strategy other than increasing or decreasing our cash position. Our approach is to own a collection of businesses that are best in class or are on the cutting edge of their respective product life. Each company must have exceptional growth potential. Please note that returns are provided net of management fees only.

Source: prepared by the author on the basis of data provided by BarclayHedge and Global Fund Technologies.

4. Rates of return and risk generated by hedge funds in the examined period

In 2007 three funds only generated minus rates of return. It was Permal Japan Fund USD with its rate of return equal to -29,71%, Okumus Long Only Fund with the rate of return – 14,68% and Lazard European Discovery L.P. having the rate of return – 4,86% (see table 2). The rest of funds had positive interest rates. The best result was achieved by Bliss Fund (28,10%), the second best by Alfanar Europe Ltd. Class A (25,37%), whereas the third best by Cambrian Fund Ltd. (25,36%). In 2008 the situation was dramatically worse. All examined hedge funds generated minus rates of return. The worst was Permal Japan Fund USD (-64,72%), the second one was Cambrian Fund Ltd. (-56,91%) and the third one was Gramercy Global Optimization Fund Ltd. (-51,48%). Thus the results for 2008 show that hedge funds were not able to generate positive rates of return during the bear market, as it is usually assumed theoretically.

As far as alpha coefficients are concerned, in 2007, 6 funds had the alpha coefficient below zero. The rest of them achieved positive alphas among which

the highest one was generated by Bliss Fund (1,82), the second best by Alfanar Europe Ltd. Class A (1,53) and the third best by Cambrian Fund Ltd. (1,50). In 2008 more than a half (exactly 11) of the examined funds achieved alphas below zero, which was a worse result than the previous year. The best result had Okumus Long Only Fund (1,89), the second best was Sunnymeath Partners, LLC (1,87) and the third best was Scopia Long LLC (1,11). It is worth emphasizing however that the average alpha of the three best funds in 2007 and 2008 is the same and equal to about 1,62. However if one takes into consideration all examined hedge funds, the average alpha generated in 2008 is much lower than the one generated in 2007, which is a result of the fact that the majority of hedge funds did not manage to beat up the market.
The analysis of risk measured by beta shows that 14 funds increased their betas. Only 6 hedge funds managed to decrease them. If one takes into consideration poor rates of income, it is another proof that hedge funds did not perform well.

Table 2. Rates of return as well as alpha and beta coefficients for the examined hedge funds.

		Rate of return		**Alpha**		**Beta**	
		2007	**2008**	**2007**	**2008**	**2007**	**2008**
1	**Cambrian Fund Ltd.**	25,36	-56,91	1,50	0,57	1,00	1,81
2	**Cambrian Europe, Ltd.**	0,83	-50,69	-0,22	0,95	0,72	1,63
3	**Sofire Fund Ltd**	6,07	-24,96	0,28	0,25	0,45	0,68
4	**McD U.S. Equity Fund Ltd.**	5,98	-30,69	0,02	-0,30	0,56	0,81
5	**Hanseatic Large Cap**	23,00	-41,54	1,23	-0,09	1,18	1,09
6	**Deltec Forum Fund L.P.**	7,57	-53,50	0,10	0,57	1,23	1,67
7	**Orbis Global Equity**	12,62	-40,45	0,71	-1,01	0,64	0,85
8	**Permal Pan European Fund USD Class A**	12,98	-39,64	0,60	-1,72	0,96	0,63
9	**Permal Japan Fund USD**	-29,71	-64,72	-2,84	-5,41	0,49	0,82
10	**Alfanar Europe Ltd. Class A**	25,37	-42,87	1,53	0,75	0,90	1,30
11	**Bliss Fund (The)**	28,10	-13,22	1,82	0,42	0,66	0,40
12	**Gramercy Global Optimization Fund Ltd.**	10,11	-51,48	0,40	-1,15	0,93	1,21
13	**Lazard European Discovery L.P.**	-4,86	-45,66	-0,72	-0,58	0,81	1,11
14	**Hillsdale US Performance Equity A**	12,70	-42,52	0,55	-0,18	1,06	1,11
15	**Scopia Long LLC**	2,01	-32,51	-0,34	1,11	1,23	1,08
16	**Okumus Long Only Fund**	-14,68	-13,91	-1,59	1,89	0,66	0,86
17	**Sunnymeath Partners, LLC**	3,27	-26,99	-0,03	1,87	0,67	1,10
18	**Ramius Value & Opportunity Fund Ltd**	6,33	-17,22	0,23	-0,08	0,68	0,45
19	**BluMont Hirsch Performance Fund**	12,92	-33,69	0,82	-1,30	0,49	0,54
20	**Rutledge Partners, L.P.**	18,17	-28,63	1,40	-0,93	1,26	0,42

Source: prepared by the author on the basis of data provided by BarclayHedge and Global Fund Technologies.

Risk measured with standard deviation of monthly rates of return, generated by the examined hedge funds increased dramatically in 2008 in comparison to 2007 (see table 3). There was just one fund that decreased its risk (-22,95%) in the mentioned period. It was Rutledge Partners, L.P. Other 19 hedge funds raised their risk by 31,23% (in the case of Bliss Fund) to 221,48% (in the case of Sofire Fund Ltd.). The highest rises were generated by the earlier mentioned Sofire Fund Ltd. (221,48%), McD U.S. Equity Fund Ltd. (209,55%) and Sunnymeath Partners, LLC (208,44%).

Table 3. Standard deviations of the examined hedge funds and their changes (data in %).

	Fund's name	**Standard deviation of monthly rates of return**		**Standard deviation change**
		2007	**2008**	
1	**Cambrian Fund Ltd.**	4,05	11,00	171,60
2	**Cambrian Europe, Ltd.**	3,39	10,40	206,78
3	**Sofire Fund Ltd.**	1,35	4,34	221,48
4	**McD U.S. Equity Fund Ltd.**	1,57	4,86	209,55
5	**Hanseatic Large Cap**	3,51	7,21	105,41
6	**Deltec Forum Fund L.P.**	4,09	10,27	151,10
7	**Orbis Global Equity**	2,44	5,62	130,33
8	**Permal Pan European Fund USD Class A**	2,98	6,31	111,74
9	**Permal Japan Fund USD**	4,17	7,74	85,61
10	**Alfanar Europe Ltd. Class A**	3,66	9,62	162,84
11	**Bliss Fund (The)**	3,17	4,16	31,23
12	**Gramercy Global Optimization Fund Ltd.**	2,91	7,90	171,48
13	**Lazard European Discovery L.P.**	4,13	8,07	95,40
14	**Hillsdale US Performance Equity A**	3,54	6,84	93,22
15	**Scopia Long LLC**	4,18	7,09	69,62
16	**Okumus Long Only Fund**	2,97	6,00	102,02
17	**Sunnymeath Partners, LLC**	2,25	6,94	208,44
18	**Ramius Value & Opportunity Fund Ltd**	2,93	4,72	61,09
19	**BluMont Hirsch Performance Fund**	2,91	5,81	99,66
20	**Rutledge Partners, L.P.**	11,37	8,76	-22,95

Source: prepared by the author on the basis of own calculations and data provided by BarclayHedge and Global Fund Technologies.

In 2007 six funds' Sharpe ratios were negative, whereas in 2008 all hedge funds had negative Sharpe ratios (see table 4). If one looks at Sharpe ratios from the 2008 perspective in comparison to 2007, 19 funds have lower Sharpe ratios in 2008 than the previous year. It was just Okumus Long Only

Fund whose Sharpe ratio increased, however it was below zero both in 2007 and in 2008.

As for the correlation ratio, it increased for the majority of funds (exactly for 16) in 2008 compared with 2007. Four funds only diminished their correlation ratios value. These were Hanseatic Large Cap (from0,90 to 0,89), Permal Pan European Fund USD Class A (from 0,86 to 0,59), Ramius Value & Opportunity Fund Ltd (from 0,62 to 0,58) and Rutledge Partners, L.P (from 0,30 to 0,28). It is also worth emphasizing that correlation ratios for the vast majority of the examined funds are high or moderate. Only two funds in 2007 have week correlation ratio (Permal Japan Fund USD and Rutledge Partners, L.P.) and just one hedge fund has a weak correlation with the S&P500 index in 2008 (Rutledge Partners, L.P.).

Table 4. Sharpe and correlation ratios for the examined hedge funds.

	Fund's name	**Sharpe ratio**		**Correlation ratio**	
		2007	**2008**	**2007**	**2008**
1	**Cambrian Fund Ltd.**	1,49	-1,61	0,66	0,97
2	**Cambrian Europe, Ltd.**	-0,31	-1,53	0,57	0,92
3	**Sofire Fund Ltd**	0,34	-1,88	0,90	0,92
4	**McD U.S. Equity Fund Ltd.**	0,27	-2,04	0,95	0,98
5	**Hanseatic Large Cap**	1,52	-1,83	0,90	0,89
6	**Deltec Forum Fund L.P.**	0,22	-1,63	0,80	0,96
7	**Orbis Global Equity**	0,96	-2,29	0,70	0,89
8	**Permal Pan European Fund USD Class A**	0,82	-2,00	0,86	0,59
9	**Permal Japan Fund USD**	-2,24	-2,58	0,31	0,62
10	**Alfanar Europe Ltd. Class A**	1,65	-1,41	0,66	0,80
11	**Bliss Fund (The)**	2,15	-1,09	0,55	0,57
12	**Gramercy Global Optimization Fund Ltd.**	0,56	-2,04	0,85	0,90
13	**Lazard European Discovery L.P.**	-0,65	-1,79	0,53	0,81
14	**Hillsdale US Performance Equity A**	0,67	-1,97	0,80	0,96
15	**Scopia Long LLC**	-0,17	-1,48	0,79	0,90
16	**Okumus Long Only Fund**	-1,86	-0,86	0,59	0,87
17	**Sunnymeath Partners, LLC**	-0,16	-1,27	0,80	0,93
18	**Ramius Value & Opportunity Fund Ltd**	0,18	-1,33	0,62	0,58
19	**BluMont Hirsch Performance Fund**	0,84	-1,86	0,45	0,55
20	**Rutledge Partners, L.P.**	0,35	-1,06	0,30	0,28

Source: prepared by the author on the basis of data provided by BarclayHedge and Global Fund Technologies.

Final findings

As it was shown in the paper equity long only hedge funds did not perform well during the bear market. It means that theoretical assumptions on the activity of hedge funds were not fulfilled in the examined period. The similar results were achieved for emerging markets funds, as well as for equity long bias funds so far. The rest of the strategies will be examined in the nearest future by the author, which will let draw conclusions on the industry as a whole.

In December 2006, the ECB voiced „unease" at the distribution of credit risk to „opaque" players such as hedge funds in its twice-yearly Financial Stability Forum. The UK's Financial Services Authority has also raised concerns about over-reliance on historical data, call in for a reassessment of some players' pricing assumptions for risk and greater stress testing. (Gore; 2007, 13.)

Thus, if one additionally takes into consideration recent discussions on the influence of hedge funds on the global financial stability[5], it raises the question what hedge funds really are.

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[5] See for example: The Impact of Hedge Funds on Financial Markets, Paper submitted to House of Representatives Standing Committee on Economics, Finance and Public Administration's Inquiry into the International Financial Markets Effects on Goverment Policy, Reserve Bank of Australia, Sydney, June 1999, p. 1 – 8.