

Lowly Analyst Free Newsletter

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Documents

In NY a living will is not legally enforceable but a [healthcare proxy](#) is. Your healthcare proxy should give the proxy holder immediate access to your health care information. You could be somewhat confused at times but not be declared incompetent. The proxy holder needs to be informed about your health status. For real estate transfers [powers of attorney](#) must include a major gift rider.

The Market

The market is still in an uptrend. S&P earnings are estimated at \$80.87 for 2010, \$95.08 for 2011, approaching the all time high of \$95.47 in 2007. The problems for the Euro are long-term bullish for the Dollar.

Currencies. April, Mexican Peso up 1%, US Dollar 1%, British Pound 1%, Chinese Yuan 0%, Canadian Dollar 0%, Swedish Krona 0%, Japanese Yen down 1%, Euro -1%, Swiss Frank -2%.

Asset Classes. April, Micro up 9%, Sml Value 7%, Mid Value 4%, Sml Growth 4%, Mid Growth 3%, Lrg Value 3%, Lrg Growth 1%.

Sectors: April, Global Carbon up 17%, Gold Mines 14%, Oil Equipment 7%, REIT 7%, Silver 7%, Oil 6%, Gold 6%, Natrl Res 5%, Lumber 5%, Multimedia 4%, Gaming 4%, Commodity Index 4%, Cons Serv 4%, Agriculture 3%, Utilities 3%, Regional Banks 3%, Technology 2%, Finance 2%, Private Equity 2%, Merger Arbitrage 1%, Biotech 0%, Internatl Real Estate 0%, Materials -3%, Health Care -3%.

Foreign Investments. April, Sweden up 4%, Singapore 4%, S. Korea 4%, Malaysia 3%, Chile 3%, Chindia 1%, Canada 1%, China 1%, US 1%, Word Ex US 1%, Intl Sml Cap 1%, Dev Mkts Ex US 1%, Emerging Mrkts 0%, World 0%, Japan 0%, Mexico down 1%, India -1%, Russia -1%, BRIC -2%, Brazil -2%, Britain -2%, Germany -2%, Australia -2%, Europe -4%, France -6%, Spain -6%, Italy -8%.

Fixed Income. April, 20+ Yr US Treas up 3.3%, US Utilities 2.8% TIPS 2.5%, 10-20 Yr Treas 2.3%, Hi Yld 1.9%, Corp Bonds 1.9%, National Munis 1.1%, Covered Calls 0.9%, Abs Returns 0.7%, Mortgage Backed 0.6%, USD Emerging Market 0.5%, Floating Rate 0.3%, 1-3 Yr Treas 0.3%, Intl Gvmt Infl Protected 0%, 1-3 Mo Treas 0%, Preferred down 0.9%, Intrnl Tres -1.4%, Financial Preferred -2.4%.

Absolute Return Funds

1. Introduction

[Absolute Return Funds](#) are showing some amazing results. Despite their popularity with institutional investors, absolute return funds generally do not achieve their objective of good returns in both up and down markets.

2. Objective of Absolute Return Funds

Absolute Return Funds, also called market neutral funds, aim to achieve returns greater than bonds both in up and in down markets by holding hedged long and short positions and having some [low volatility](#) securities and cash. Selling short is achieved by selling borrowed securities and later buying the securities and returning them to the lender.

Other strategies that are used are driven by events, relative value arbitrage, buying distressed securities, market or sector timing, high yield bonds, and options. Some of the funds use up to 50% leverage, the maximum allowed for mutual funds.

Most Hedge Funds use absolute return strategies to some extent. Institutional investors use absolute return strategies to a large extent, usually through hedge funds.

Other strategies that do not try to achieve absolute returns sometime do. E.g. a capital structure arbitrage fund [Driehaus Active Income \(LCMAX\)](#) has total returns of 6.6% since it started 4.5 years ago. Its price, adjusted for its dividend, never went down more than 5%. We include LCMAX in our analysis.

3. Performance of Absolute Return Funds

Institutions have used absolute return hedge funds for a long time, mutual funds only recently. We show data for funds that have a track record of at least 30 months. We also include Driehaus Active Income, intermediate term treasury bonds, and the US total stock market for comparison.

We show Standard Deviation (Std) of monthly returns, a measure of volatility, Yield (Yld), [Maximum Drawdown](#) (MDd) of daily closes, the greatest percentage drop in value, and 1 month, 12 month and 3 year Total Return. We also show graphs of monthly asset values (Figure 1), and Total Return, adjusted for dividends (Figure 2).

Absolute Return strategies did not perform well in the period from 2007-2009 (see Figure 1) because of aggressive US Government intervention. The government did not follow its precedent and changed the rules along

the way. Generally the funds do not achieve their objective (see table at the right).

4. Bottom Line

- Because of event risk absolute return funds generally do not achieve their objectives.
- Drawdown of over 10% and small returns are common.
- Some strategies achieve absolute returns while pursuing other objectives.

	Std	MDd	Yld	1 Mo	12 Mo	3 Yr
Driehaus Active Income LCMAX	6%	13%	15%	0.5%	17%	26%
JPMorgan Research JMNAX	4%	8%	N/A	-1.2%	3%	10%
Eaton Vance Gbl Macro EAGMX	2%	7%	6%	0.5%	11%	N/A
JPMorgan Multi-Cap OGNAX	4%	14%	N/A	-1.2%	-1%	-7%
American Century L-S ALIAX	5%	14%	N/A	-0.1%	0%	-8%
Akros Absolute Return AARFX	5%	24%	N/A	-0.9%	-2%	-3%
Absolute Strategies I ASFIX	6%	25%	1%	0.7%	17%	8%
Alpha Hedged Strtgies ALPHX	13%	42%	6%	0.8%	19%	-14%
Beta Hedged Strategies BETAX	17%	46%	N/A	1.1%	23%	-17%
Old Mutual Analytic A ANAEX	19%	50%	N/A	-1.3%	11%	-36%
iShare 7-10 Yr Treasury IEF	5%	13%	5%	1.7%	0%	20%
SPDR DJ Total Market TMW	16%	57%	2%	1.7%	40%	-13%

Figure 1 Absolute Return Funds Monthly Asset Value

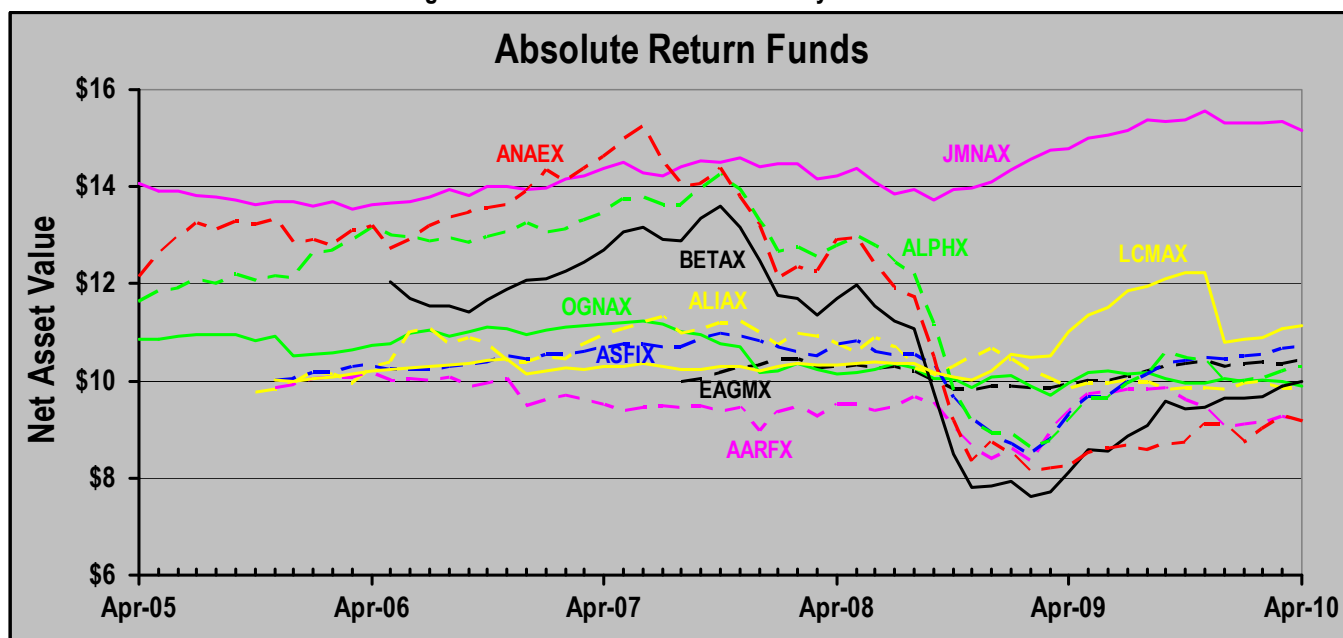


Figure 2 Absolute Return Funds Cumulative Total Return (Adjusted for Dividends)

