



Hedge Funds Lost \$350 Billion in 2008 Amid Global Market Rout

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By Tomoko Yamazaki

Jan. 13 (Bloomberg) -- Hedge funds lost \$350 billion globally in 2008, the most on record, as the biggest financial crisis since the Great Depression crippled returns and caused investors to pull money out, according to an industry report.

About 90 percent of the money was lost in the three months to the end of November, according to a preliminary **report** published today by Singapore-based data provider **Eurekahedge Pte**. Funds that invested in North America declined the most, posting a drop of \$183 billion for the year, the report said.

The hedge-fund industry shrank by about a fifth to \$1.5 trillion at the end of the year from a peak of \$1.9 trillion, Eurekahedge said. Funds including Citadel Investment Group LLC suffered investment losses and client withdrawals. Some funds were forced to sell assets at fire-sale prices as the credit crisis forced banks that lent money to hedge funds to withdraw their loans.

"A coordinated slowdown everywhere has led the hedge-fund industry to shrink," said **Peter Douglas**, principal of hedge-fund consulting firm GFIA Pte in Singapore. "Everyone has been caught in a liquidity trap."

Eurekahedge's figures are estimates based on the 39 percent of the funds that have so far disclosed performance figures to the research firm.

Hedge funds posted a 12.3 percent loss over the year, based on the Eurekahedge Hedge Fund Index, which tracks more than 2,000 funds worldwide. That compares with a 13 percent gain in 2007 and is the first decline since Eurekahedge began publishing the figures in 2000.

December Gains

Hedge funds added 1 percent on average in December, the first increase in seven months. The funds are mostly private pools of capital whose managers participate substantially in the profits from their speculation on whether the price of assets will rise or fall.

Decisions by hedge-fund managers including **Kenneth Griffin's** Citadel Investment Group LLC and Paul Tudor Jones's Tudor Investment Corp. to limit redemptions spread to smaller funds in Asia as investors unable to raise cash elsewhere sought to sell out of the funds.

The collapse of U.S. investment bank Lehman Brothers Holdings Inc. in September fueled a rout that halved the value of equity markets worldwide to about \$30 trillion in 2008. The **MSCI World Index**, which tracks shares in 23 developed nations, tumbled a record 42 percent last year as credit-related losses at financial firms topped \$1 trillion.

Lehman's Demise, Madoff

Lehman's demise rocked hedge funds that relied on investment banks' prime-brokerage units to make loans, clear trades and handle administrative tasks, forcing more than 80 managers to liquidate hedge funds, segregate assets and limit withdrawals.

The industry also suffered when U.S. authorities charged Bernard Madoff with securities fraud for directing an alleged \$50 billion Ponzi scheme.

"The Madoff scandal has led to investors becoming more suspicious about hedge funds," said **Mitsushige Akino**, who oversees about \$430 million as chief investment officer at Tokyo-based Ichiyoshi Investment Management Co. "The redemption-spree is going to last for quite some time."

Managers that trade futures, so-called CTAs, and macro-fund managers, who wager on trends in stocks, bonds and currencies, were the best performers, gaining 17 percent and 1.9 percent respectively, according to EurekaHedge. Those investing in distressed debt were the worst performers, declining 27 percent.

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