

ALTERNATIVE MARKET BRIEFING

Opalesque Exclusive: The siren call to strike out on one's own in the hedge fund world continues even during financial crisis – Part Two

Friday, March
06, 2009

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From [Kirsten Bischoff](#), Opalesque New York : No matter what the assets under management eventually grow to be, most hedge funds start out as one person's dream. And for many, that dream is – simply stated – to run an investment strategy that they believe in, and to generate solid performance for their investors. While the general public is made acutely aware of the billions of dollars generated by those who manage the largest funds, many forget that a large portion of the hedge fund industry's 7,000 funds are small businesses.

When H. [Kevin Byun](#) founded Denali Investors LLC in New York in November 2007, starting with investments from family and friends he became one of these small businessmen. That his foray into the hedge fund industry happened in concert with the worst global financial crisis in history has been unnerving at times, but [Byun's](#) value-based and special situations investment strategy of a handful of concentrated positions long ago required him to have the courage of conviction.

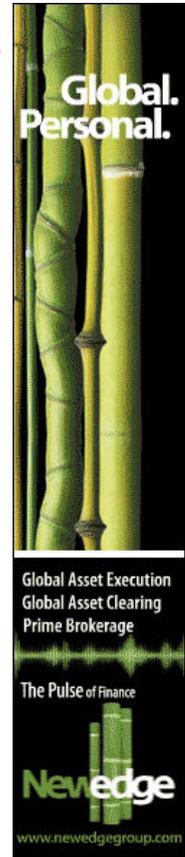
Advantages of a strong investor base

Perhaps one of the evolutionary lessons which funds will take away from 2008 is that more important than the size of the investor base, is the strength of its commitment to a partnership with a manager.

Redemptions soared through 2008 and continue in 2009 with hedge funds losing approximately \$70bln in January to investor redemptions. The self-perpetuating cycle of redemptions causing sell-offs that devalue portfolios and kick-start greater redemptions makes establishing a certain level of partnership between managers and investors a survival requirement going forward.

We have seen limited redemptions from those smaller funds which have an investor base comprised of friends and family, says Saran Kanagaraj, CEO of hedge fund administrator Variman.

[Byun](#) is one such example of this, and he is quick to attribute Denali's 2008 performance (+28.0%) results in part to the stability of the fund's core group of investors. For a strategy which relies on a long-term approach to investing, being able to rely on the stickiness of assets under management is necessary to achieve success. For Denali's first year being able to focus on the work and not have to worry about investors getting antsy in the short term was an enormous help. It also was representative of another reason why many hedge fund managers strike out on their own: the ability to run a strategy according to a personal investment philosophy



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rather than according to the imbedded activity requirements of a larger firm.

After launching his fund in November 2007, [Byun](#) wound up waiting on the sidelines with a portfolio that stayed 50% - 75% in cash until opportunities arose in the fourth quarter of 2008.

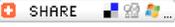
“It was one of those situations where it was professionally very frustrating, because you want to be active and express your work through putting on positions. However, it just wasn’t the right thing to do. So we sat and waited patiently through the whole year until the market finally did crack and the opportunities finally presented themselves.”

It is the type of decision which is much harder to make under the umbrella of a large firm, which sometimes requires keeping or adding positions to remain relevant or justify continued employment. “For many people, the best thing their managers could have done was to tell their team to take a 9 or 12 month vacation and revisit the markets then. But it doesn’t work that way.” [Byun](#) commented.

It is also a difficult decision to make when you do not have the support of your investors, or if institutional investors are pushing back due to stagnant performance. While funds with friends and family investors may be more patient with a manager’s strategy when appeased by solid communication, Kanagaraj notes that funds comprised of high levels of institutional money, whether aum is large or small, seem to suffer greatest from redemptions in comparison to funds with friends and family money, even when performance is similar or even better.

Part one of the article can be found here:

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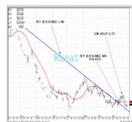
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Near Term Trend:
Negative

Monday's Close:
\$5.12 ½ (+ 5 ¼

cents)

UPDATE: The settlement above \$5.50, which was finally achieved on March 19, turned out to be a false break to the upside.

Following a congestion pattern, which ensued for three days, the market broke lower last Tuesday and Wednesday.

It's possible, at this juncture, the market holds above the internal (blue) support line, but the trend remains negative, and a settlement above \$5.31 is required, at minimum, to spark some concerted buying. Anything less would be just considered covering of shorts.

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