From the Financial Times of the 28th of July 2013:

Hedge funds under scrutiny as stock pickers fail to beat market

By Dan McCrum in New York

Hedge funds have a performance problem. Already under intense ethical scrutiny, Wall Street's master stock pickers have also spectacularly failed to beat the market.

Since January 2010 the average equity hedge fund has produced profits for its investors, after fees, of just 14.5 per cent, according to the research group HFR. Over the same period an investor in the S&P 500 earned, with dividends, a 55 per cent return. Some 85 per cent of equity hedge funds are failing to match the market, HFR finds.

The performance crisis comes as the industry is still reeling from the criminal insider trading charges filed against SAC Capital. These threaten to undermine one of the world's most successful hedge funds and raise wider questions over the source of the industry's past returns. The firm says it has done nothing wrong.

Many hedge funds fared better than the stock market during the financial crisis, and rode the 2009 recovery back to health, but the good performance has not lasted.

Stock trading specialists at hedge funds have even fared worse than their peers managing humdrum mutual funds. From the start of 2010 to the end of June this year, mutual fund managers have achieved a higher average investor return of 44.5 per cent, according to the research group Lipper. Even though 83 per cent of mutual fund managers did not beat the S&P 500, fewer have failed the grade than among hedge funds.

The comparison may be unfair to some funds that do not aim to beat the market. Some within the industry argue that hedge funds are behaving as they should, performing better as markets plunge, but lagging behind as they steadily rise.

"We haven't changed our advice," said Edward O'Malley, hedge fund consultant for Cambridge Associates, "In the same way . . . we weren't advising clients to exit hedge funds in favour of long-only funds after the crisis."

While mutual funds are restricted to simple activities such as stock picking, hedge funds typically also try to use leverage to magnify returns.

Yet the poor performance of the last three years now far outweighs hedge funds' resilience through the worst of the crisis. Over the past five years the S&P 500, with dividends, has delivered average annual returns of 7 per cent, while equity hedge funds have produced just 1.7 per cent, according to HFR.

CURRENCIES

	Jul 26	Jul 19		Jul 26	Jul 19
$ per €	1.326	1.314	€ per $	0.754	0.761
$ per £	1.537	1.526	£ per $	0.651	0.655
£ per €	0.863	0.861	€ per £	1.159	1.161
¥ per $	98.13	100.4	¥ per €	130.2	131.9

INTEREST RATES

	price	yield	Wk's chg
US Gov 10 yr	93.02	2.56	0.07
UK Gov 10 yr	95.22	2.34	0.04
Ger Gov 10 yr	98.50	1.67	0.14

Cover Price

Austria	€3.50	Malta	€3.30
Bahrain	Din1.5	Mauritius	MRu90
Belgium	€3.50	Morocco	Dh40
Bulgaria	Lev7.50	Netherlands	€3.50
Croatia	Kn29	Nigeria	Naira715
Cyprus	€3.30	Norway	NKr32
Czech Rep	Kc120	Oman	OR1.50
Denmark	DKr31	Pakistan	Rupee 200
Egypt	E£19	Poland	Zl 16
Estonia	€4.00	[illegible]	[illegible]

Last 5 years average annual return:

HFR Equity Hedge Funds	**+ 1.70%**
S&P500 Index	**+ 7.00%**
The 1.2 Fund	**+8.40%**