Eat My Dust, S&P 500

Technology stocks drive the leaders of the hedge-fund pack

BY JAYE SCHOLL • Technology stocks soared in value around the world this year, propelling hedge funds with high-tech exposure to the top of the performance charts. Park Place International (D), based in London, concentrated most of its $23 million in assets in a beleaguered .U.S. tech company that had been abandoned by momentum investors.

The company, which the fund's advisers declined to identify, subsequently recovered, helping Park Place International gain 32% for the third quarter and 521% year-to-date. It was the best performance, both quarterly and for 1999's first nine months, among nearly 500 hedge funds with a minimum $20 million in assets, according to Managed Account Reports, the New York-based publishing firm that tracks hedge funds, funds of funds and commodity trading advisers. (A list of hedge-fund performance begins on page MW 68.) Philip Hand, who founded Park Place five years ago with Giuseppe Ciardi and Danial Albun, hunts for downtrodden stocks. Technology companies in particular, he notes, have such high operating margins that a turnaround can have an enormous impact on revenues and earnings and,consequently, stock prices.

Marc Faber, perhaps the world's most astute investor in emerging markets, bought shares in fast-paced software companies in India. Faber predicts that the region's low-cost, well educated labor force could be as devastating to American software companies as Japanese car manufacturers were to Detroit. Faber's Indian Smaller Companies fund turned in the quarter's second-best performance, rising 30%. "India is a little bit overlooked by foreign investors. It has not had the kind of gold rush that took place in China," says Faber, who observes the world-wide investment scene from the hills of Hong Kong. He notes that while China received $40 billion in foreign direct investment, India has gotten only $1 billion, ironically sparing India from the problems associated with overbuilding.

Ben Taylor, the general partner of the Weiss Peck & Greer Software fund, took a chance with Yahoo Japan. The Japanese affiliate of the American internet firm jumped 5,500% in a year, and now trades for $590,000 a share. Yahoo Japan made the cut from the nearly 1,500 Internet and software companies that Taylor and his partner, Raj Mehra, track worldwide.

They then meet with 300 every year before picking 25 companies for the fund. Unify, a company that supplies Internet infrastructure software, also made the cut. The stock had a nice run in the past year, from $3 a share to a recent high of $32.

"Our job is not to own Microsoft and other family favourites, but to buy the newer companies where we can earn a discovery premium," says Taylor. `David Rothschild, who founded a computer-systems integration business while a sophomore at the University of Pennsylvania's Wharton School, runs RT Partners in New York with his research associate, Mark McCall. Describing himself as "a techie who happens to be in finance," Rothschild takes the view that the computer revolution is being dwarfed by the communications revolution. He focuses on companies that are suppliers to the communications industry, including PMC Sierra, a Canadian company that makes computer chips and chip systems for internet transmission, and Mercury Interactive, which tests Websites.

As the world's tech-stock prices were soaring, the values of blue-chip companies were languishing. As a result, the Standard & Poor's 500 Index gained a tepid 4.4% through September 30. That created an opportunity for hedge funds to shine by comparison. MAR's Lois Pelts estimates that 60% of hedge funds are beating the benchmark so far this year. In 1998, in contrast, only 13% out-performed the Index. Apparently, many hedge-fund managers decided to buy bear market insurance, in the form of short positions or puts, following the near collapse of Long Term Capital Management in September 1998. Such an approach has been penalized during the large-cap bull market that has prevailed for most of the decade. But it worked superbly in the choppier markets of 1999. "The better managers really are hedged," says Peltz, editor of MAR's publications.

Rising interest rates derailed the performances of hedge funds specializing in financial stocks, such as KR Capital Partners in New York and FBR Ashton in Arlington, Virginia.

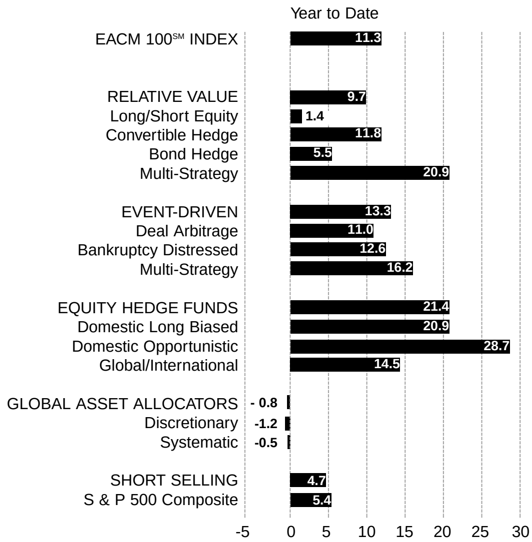
But the bigger disappointments were global funds, which have the freedom to invest anywhere in the world and in any types of security. Soros Fund Management's Quota Fund, with $1 billion in assets, lost 23% in the third quarter. Quantum, its flagship with $7 billion in assets, gained 7%, but is down 6% year-to-date.

Julian Robertson's Tiger Management, which has seen assets under management cascade from $20 billion a year ago to $8.3 billion, had an even worse third quarter. Tiger, with $4 billion in assets, was down 16% in the period and off 22% for the year. The losses were attributable to big concentrations in USAir and Waste Management. Two of the quarter's worst performing funds, St. Geme in San Francisco and Situs 1 in New York, have two of the best long-term records. St. Geme, off almost 22% in the quarter, gained 364% over the past three years, the second-best performance on MAR's list. Situs 1, down over 17% in the three months, is up 216% over three years, the 10 th -best showing.

William Levin, who runs Situs 1, ascribes his down quarter to the fact that he concentrates the fund's $28 million in assets in only 10-15 stocks. Inevitably, some of his stocks will fall out of favor during the year. "I believe you make money by restricting yourself to your best ideas," says Levin. "Diversification is another word for not working."

OUTPERFORMING THE BENCHMARKS

The new economy? Hedge funds holding technology stocks soared in the third quarter, despite choppy markets. Most are reporting solid gains this year, compared to the anaemic Standard & Poor's 500 index. If the trend continues, 1999 will be the first year since 1994 in which most hedge funds outperform their benchmarks.



Source: Evaluation Associates Capital Markets SM

BEST	3rd Qtr	Year to Date	12 Mo. Return	36 Mo. Return	Type
Park Place International	32.41%	521.31%	657.20%	NA	Global Est
Indian Smaller Co	30.04%	101.21%	118.04%	113.88%	Global Emer
Velocity Technology & Comm	28.84%	134.69%	218.77%	312.10%	Sector
WPG Software	24.26%	98.81%	180.27%	NA	Sector
RT Partners	24.08%	71.96%	158.92%	NA	Sector
Bulldog Investment Partners	18.37%	53.59%	58.60%	118.63	Global Est
Bay Rsrce Ptnrs Offshore	18.18%	26.55%	20.73%	NA	Short Sales
Foxhound Fund	17.00%	90.78%	95.85%	158.39%	Global Est
Quaker Capital Partners 1	16.40%	175.67%	114.94%	365.46%	Mkt Neutral
Bear Creek Capital Ptnrs 1	15.88%	37.85%	57.70%	213.79%	Sector

WORST	3rd Qtr	Year to Date	12 Mo. Return	36 Mo. Return	Type
FBR Ashton	-24.69%	-6.41%	-5.15%	-4.8%	Sector
Quota Fund (Series 1)	-23.73%	NA	NA	NA	Gl Macro
Quota Fund (Series 2)	-23.40%	NA	NA	NA	Gl Macro
Quota Fund (A)	-22.85%	-11.17%	-27.02%	28.33%	Gl Macro
St Geme Partners	-21.95%	-14.02%	72.76%	364.13	Global Est
Oscar Investment	-19.96%	-14.75%	-3.20%	NA	Global Est
Sakura Fund	-19.69%	8.82%	34.05%	49.78%	Global Est
Situs 1	-17.40%	-5.52%	32.49%	216.23%	Global Est
Tiger Fund	-15.84%	-22.42%	-37.53%	49.81%	Gl Macro
KR Capital Ptnrs 1	-15.06%	-2.61%	16.88%	46.45%	Long Only

Source: Managed Account Reports