

HEDGE FUNDS AVERAGE SMALL LOSS IN SECOND QUARTER - 07/15/02

After posting gains for the prior two quarters, hedge fund returns fell slightly overall in the second quarter of 2002. The Average U.S. Hedge Fund lost ?1.4% net in the April through June period while the Average Offshore Hedge Fund slid ?1.0% net. Despite the losses, hedge funds significantly outperformed stocks last quarter, with the S&P 500 dropping ?13.4% and the Dow Jones Industrial Average falling ?10.7%. For the first half of 2002, the Average U.S. Hedge Fund is at break-even and the Average Offshore Hedge Fund has earned 0.6% net.

Both domestic and offshore-based hedge funds were averaging a positive year-to-date net return coming into June but last month's turmoil in world equity markets wiped out much of those earlier gains. The Average U.S. Hedge Fund lost ?1.9% net last month and the Average Offshore Hedge Fund lost ?1.7% net. Equity benchmarks fared far worse, including the Average Equity Mutual Fund, which lost ?6.6% in June. Many hedge funds, however, were able to finish the second quarter profitably, with just under half of those surveyed reporting a positive net return.

Aggressive Growth strategy hedge funds have been hit hardest recently, which is no surprise given the NASDAQ's ?20.6% decline last quarter. Of course, the market's bearish bent lately has favored short sellers, with U.S. Short Selling hedge funds averaging a strong second quarter gain of 13.0% net. The remaining strategies fell somewhere in between. Half of the 14 U.S. hedge fund strategies VAN tracks were positive for the quarter.

Hedge fund investors have weathered the market's current storm better than many others as hedge fund managers have the flexibility and skill to adapt their portfolio quickly to changing conditions, including the option of shorting falling stocks and adding exposure to non-equity securities. Hedge funds appeal to sophisticated investors because of their reputation for preserving capital in down markets and generating appreciable gains under more favorable conditions. So far this year, hedge funds have succeeded in insulating their investors' capital from the brunt of the ongoing sell-off.

Among U.S. hedge funds specializing in particular market sectors, Healthcare funds fared best in the second quarter, averaging a 7.3% net gain. Technology sector funds were also positive for the quarter with a 0.6% average net return. Media/Communications funds averaged a ?0.9% net loss while Financial Services funds, which had gained 5.2% net on average in the year's first quarter, lost ?6.5% net in the second quarter.

For June, the best performing strategies were U.S. Short Selling, Offshore Short Selling, and Offshore Income, which had net returns of 4.9%, 4.3% and 1.6%, respectively. U.S. Short Selling funds also led for second quarter 2002, with an average 13.0% net gain, followed by Offshore Short Selling funds and U.S. Healthcare sector funds, with average net returns of 12.0% and 7.3%, respectively.

Van Hedge Fund Advisors