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Hedge Fund Bears, Volatility Managers Thrive in Wild Markets

- **Phalanx opens to new money mid-month after 8% March gain**
- **APS Asia Pacific Long Short fund up 10% on bearish bets**

By Bei Hu and David Ramli

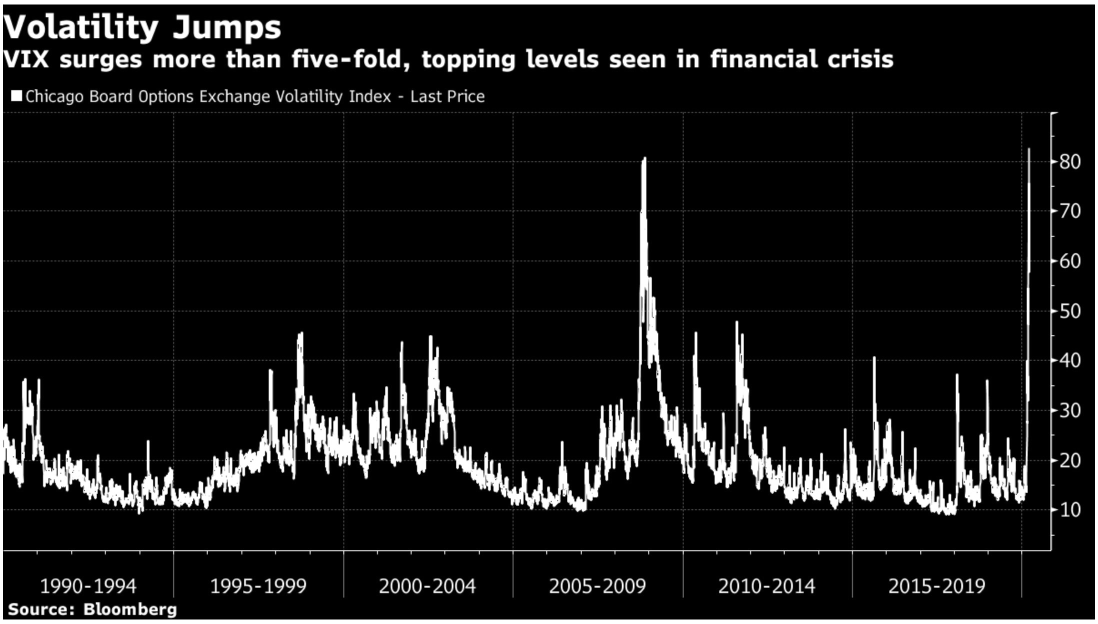
(Bloomberg) -- Volatility and bearish funds are thriving in some of the wildest markets since the Great Depression.

Phalanx Japan AustralAsia Multi-Strategy Fund has gained an estimated 8.1% in the first 13 days of March, extending this year's return to 12%, it said in an update to investors and potential clients.

The Chicago-based fund, which usually only accepts investments at the start of each month, will open to new money mid-month to take advantage of the trading opportunities, Chief Investment Officer Chris McGuire said.

Gauges of market anxiety, including the Cboe Volatility Index, have surged in recent weeks amid the Covid-19 pandemic and oil-price shock. The S&P 500 has seen three straight moves of at least 9% -- a streak last notched during the Great Depression. The VIX, also known as the fear gauge, has soared more than five-fold within a month.

"Our expectation is that heightened volatility will remain, and normally unseen investment and arbitrage opportunities will continue to present themselves," Phalanx's Chief Financial Officer Mike Wyne said in an email to investors. "The trend is clearly continuing during this current period of market stress, which creates a real opportunity for investors to potentially earn positive returns despite the implosion of global markets."



Phalanx focuses on Japanese convertible bonds and so-called asset swapped convertible option transactions, or ASCOTs, which give investors the same options to convert into shares as owners of convertible bonds, without the associated credit risk. Its strategy tends to thrive with rising stock volatility.

It's also a good time for bears. Wong Kok Hoi, whose company manages $2.3 billion of assets for largely institutional clients, said his $270 million APS Asia Pacific Long Short fund is up 14.3% this month. It's gained 21% this year thanks in large part to bets shorting Wynn Macau Ltd., Apple Inc., and Australian retailer Harvey Norman Holdings Ltd., whose shares have all tanked.

Its smaller All China Long Short Fund has returned 14% this year while its flagship long-only China funds are down 4% -- a respectable achievement given its mandate and the state of the market.

"We're at the early stage of capitulation by investors because many, especially in the U.S., have been so long for so many years and leveraged. They're only just beginning to unwind," Wong said. "Covid-19 has just started in the U.S. and Europe. If I use baseball language to describe it, they're probably in the second or third innings."

For more on hedge fund returns:

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Dalio's Macro Fund Plunged About 20% This Year as Market Tanked
Louis Bacon Gains Double Digits After Calling Virus Shakeout

Another volatility fund, True Partner Capital's flagship relative-value hedge fund, which profits from mainly equity index options that either overprice or underprice stock swings, returned almost 3% in the first 13 days of March.

The firm's other fund, which benefits from surges in volatility, rose 4% this month to extend this year's advance to 10%.

True Partner, which has offices from Hong Kong to Chicago, oversees $1.2 billion. With volatility already elevated, the firm expects to see more short-term, perhaps intra-day, trading opportunities, Chicago-based co-CIO Tobias Hekster said in an interview.

Investors repositioning themselves may move volatility implied by options in one market out of sync with other markets, and with actual swings in cash equity markets, he said.

"The focus will be more on the overall economic impact," Hekster said. "That is more of a global issue and, in our view, that might lead to these pockets of mis-pricing where different markets react asynchronous to the same event."

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