Hedge Funds

We keep getting inquiries about hedge funds. This investment industry sector is losing money for its clients. One major hedge fund personality forecasts that approximately one-fourth of the $3 trillion hedge fund complex will bleed away this year: http://www.bloomberg.com/news/articles/2016-05-25/hedge-funds-may-lose-quarter-of-assets-blackstone-s-james-says.

Warnings about hedge funds have been issued for some time – we have been among those issuing such warnings. But some investors persist in "the triumph of hope" as a strategy. The logic of hedge funds charging 2% fees and 20% of profits is beyond rational comprehension. Funds of funds sometimes make the prospect for investor returns even worse. With such high charges, these outfits simply cannot beat the market – and certainly not today's market.

Let's be very clear here.

Cumberland Advisors does not run, sponsor, or manage a hedge fund. We haven't, we don't, and we won't. Our firm has always believed that low-cost steady returns are the single best approach for investors. In a climate of very low interest rates and high uncertainty about monetary policy and geopolitical risk, diversification of risk and pursuit of steady and consistent returns, in our view, is the best way to handle investment portfolios. Gambling and hedge funds are not on our agenda for our clients.

There was a heyday of hedge funds when they were new and there were few. Now that there are many, investors are paying a steep and painful price for plunging into this very volatile and aggressive investment structure.

We didn't follow those lemmings, and won't.

Any hedge fund investor who wants to consider alternatives can contact us for options and methods to handle investment decisions. We have a number of them and use only tailor-made separate account structures that emphasize low cost to the investor.

One of our recommendations in the past was to seize the opportunity when the tax-free bond yield was 4% or even slightly higher. We wrote about the opportunity repeatedly and positioned our clients to take advantage of it. At the time, the pushback came from those who wouldn't buy bonds because interest rates were going to go "shooting up." The forecasts were that all that the extraordinary monetary policy let loose in the world would create huge inflation, interest rates would spike, and economies would go into the tank. We disagreed. We sponsored the notion that for an American taxpaying investor, the tax-free 4% bond with a high-grade credit was one of the best relative values in the world. We sponsored that notion against those who wanted to speculate in hedge funds because 4% after taxes wasn't good enough for them.

The 4% tax-free bond is gone, and we are now in the 3-handle territory. At 3%-plus with the right structure, a bond portfolio is still yielding more than the comparable taxable treasuries, and it is still providing relatively good value for investors who are satisfied with single-digit compounding returns and low levels of risk in the credit arena.

As for hedge funds, we will continue to pass on this "opportunity of a lifetime." We will use our various ETF strategies as an alternative that provides low-cost market participation in stocks around the world.