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Top-performing equity managers

Shorting the market key for equity managers in 2008; cash, gold do well, too

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Strategies high in cash and gold holdings and those that aggressively shorted the market topped equity manager results for 2008 in Morningstar Inc.'s separate account/collective investment trust fund database.

There was no clear pattern among the top-performing managers, reflecting the hectic nature of the markets, said Rachael Olson, an institutional analyst for Morningstar's separate accounts/commingled funds data services in Chicago.

"They're kind of all over the place," Ms. Olson said, noting that in most periods a clear consensus toward a particular style or capitalization that did best usually develops, but that is not the case currently. "There is just so much volatility out there; there are not a lot of (clear) patterns in both equities and fixed income."

And the range of returns among the top 10 equity managers — from 78.24% to -11.15% — is unprecedented, Ms. Olson said.

The AdvantHedge bear market short-only portfolio run by Leuthold Weeden Capital Management, Minneapolis, recorded the high return for the year with 78.24%. In second place was Menlo Park, Calif.-based **Leylegian Investment Management**'s equity composite strategy at 13.23%.
The median manager in the overall equity category returned -37.02%; the Russell 3000 index returned -37.31% for the same period.

The goal of the AdvantHedge strategy is to perform the inverse of the equity markets, said Matt Paschke, co-portfolio manager. By using a quantitative approach, the strategy seeks appreciation by identifying companies whose stocks are expected to decline in price and selling those stocks short.

"Last year was the perfect environment for a strategy like this," he said.

Mr. Paschke said that while all sectors helped performance, the sector that contributed most to performance was technology, followed by consumer discretionary and financials. The strategy is restricted to short selling about 50 medium- to large-capitalization stocks. Mr. Paschke said he could not provide names of specific companies.

“A lot of discipline revolves around shorting,” he said. “This is an emotional game to begin with, so we attempt to remove as much of the emotion as possible.”

The firm has been managing the strategy since 1990. Interest has varied over time, depending on what the markets are doing, Mr. Paschke said.

“There’s always more interest when people think the markets are overvalued and less interest when they think it’s undervalued,” he said. “Right now there’s a ton of interest … a lot of people are worried about the market.”

100% in cash

The Leylegian portfolio began buying long-term Treasuries at the beginning of 2008 and was 100% in cash or cash equivalents by the time the financial crisis hit in September, said George Leylegian, portfolio manager, president and CEO of the firm.

“It was a monumental implosion, and an implosion we’ve been expecting for a long time,” he said. “We sat it out because, really, preservation of assets is our cornerstone.”

The firm’s primary clients are religious institutions, with a large share affiliated with the Roman Catholic Church. Mr. Leylegian said he hasn’t had a negative year since the firm’s founding in 1981.

“Our clients are in desperate need of money,” he said. “They can’t afford to lose a penny.”

While Mr. Leylegian said he expects to stay in cash for the first part of 2009, then get back into equities in the second half.

“I believe very strongly the business of America will actually begin to improve before it’s reflected in stock prices,” he said. “Many of these companies … and our hearts truly go out to every person who lost their job … but from a financial point of view, many of these companies postponed the natural pruning they ought to have done along the way.

“Now, unfortunately, they’re hacking off whole limbs instead of doing spring cleaning each year.”

As a result of the “severe prunings,” companies in certain industries could start seeing positive earnings as early as the summer, Mr. Leylegian said.

In third place for the year was the large-cap blend Robinson Market Opportunity Composite strategy run by **Robinson Value Management Ltd.**, San Antonio, with -2.92% for the year. The fund strategy is quantitative and uses historical patterns to find value, said Charles Robinson, portfolio manager of the strategy and managing director at the firm.

“We try not to be too smart; we let history be the guide and don’t intervene,” he said

A key reason for the strategy's performance is a move made on Oct. 27. In September and October, the strategy had shorted the market 40%, Mr. Robinson said. On Oct. 27, the strategy went 130% long. On Oct. 28, the Standard & Poor's 500 jumped 91.59 points.

A tactical asset allocation portfolio run by AIS Capital Management, LLC, Wilton, Conn., had the fourth-highest return for the year at -3.47% and the highest return for the five-year period ended Dec. 31 with a compound annualized 14.12%.

The portfolio can invest in equities, bonds, gold bullion or cash, said John R. Hummel, partner, president and chief investment officer. About midway through 2007, Mr. Hummel said, he turned bearish toward the equity market. By the end of 2008, the portfolio was 80% gold, with just 17% in equities and 3% in cash.

"Gold really was the factor that gave us the performance," Mr. Hummel said.

Rest of the top 10

Rounding out the top 10 were PTI Securities & Futures LP, Chicago, with -4.98% for its Protected Index Program portfolio, a large blend strategy; Intrepid Capital Management, Jacksonville Beach, Fla., -6.06% for its small-cap value strategy; JPMorgan Chase & Co., New York, -8.09% for its strategic property strategy; Manley Asset Management, Chatham, N.J., -9.28% for its small-cap value strategy; St. James Investment Co., Smithtown, N.Y., -10.94% for its large-cap core strategy; and Sadoff Investment Management LLC, Milwaukee, -11.15%, for its large growth portfolio.

For the five years ended Dec. 31, Boston-based **Wellington Management Co. LLP**'s natural resource fund strategy was second with 14.09%; followed by James Investment Research Inc., Xenia, Ohio, 11.2% for its microcap strategy; 10.94% for the JPMorgan strategic property strategy; and 10.93% for the small/microcap value strategy of Morgan Dempsey Capital Management LLC, Milwaukee.

The Russell 3000 returned -1.95% for the five-year period, while the median separate account in the Morningstar database returned -0.61%.

In the collective investment trust universe, real estate funds took the top three positions for the year ended Dec. 31. Washington-based **Union Labor Life**'s MSA J strategy returned 5.29%; Washington Capital Management Inc., Seattle, -2.4%; and ASB Capital Management LLC, Bethesda, Md., -4.54%.

For the five-year period, Washington Capital's real estate fund was first with 11.85%; followed by Westwood Management Corp., Dallas, 9.52% for its small/midcap blend fund; and the Graham & Dodd Value Fund, New York, 7.26%.