



Traders work on the floor of the New York Stock Exchange in New York, November 30, 2012. REUTERS/KEITH BEDFORD

Waiting for the big turn

With the U.S. recovery stalling, much of Europe in recession and China's breakneck economic growth slowing, investors face another year of volatility. The Reuters Global Investment Outlook 2013 Summit, which ran from Nov. 26-30, featured guests from the Federal Bureau of Investigation, investment

management firm D.E. Shaw and other top investment firms. Over two dozen hedge funds, money managers and macro economists shared their exclusive crystal balls with our top reporters and editors, on everything from the "fiscal cliff" debate to their views on their best investment strategies in the coming year.

Safe or junk, bonds in bubble trouble

BY SUJATA RAO AND CAROLYN COHN
LONDON, NOVEMBER 28, 2012

Investors' love affair with bonds could be on the rocks after five long years as both safe haven and junk bonds look to be in bubble territory.

Huge demand has pushed borrowing costs for sovereigns as well as companies to multi-year or even record lows, with some governments in the West now effectively charging investors to lend to them.

Investing in the bond market has looked like an obvious move for most of this year as all significant debt markets rallied.

But fund managers participating in the Reuters Global Investment 2013 Outlook Summit this week reckon the bond rush may be nearing the home stretch - at least in the highest and the lowest-risk sectors.

Low-yielding British gilts, German Bunds, Japanese government bonds and U.S. Treasuries have been artificially boosted by central bank buying, Andreas Utermann, CIO of Allianz Global Investors told the summit.

"It's got to be the biggest bubble out there. The question is not only, can it burst - it must burst," he said, adding any successful stabilization of economies would necessarily see those government yields rise substantially.

The period since the 2008 crisis has been dominated by a rush into bonds; junk, safe, sovereign and corporate.

Since January 2009, \$1.2 trillion has flowed into debt funds, according to EPFR. Equity funds, on the other hand, have seen net redemptions of \$234 billion, as economic growth tanked and central banks around the world eased policy on an un-

precedented scale.

But enthusiasm is dimming. Bank of America/Merrill Lynch's monthly survey showed in November that funds had cut bond positions in favor of equities for the fifth straight month.

Giordano Lombardo, chief investment officer of Pioneer Investments, said bond markets had benefited from "allocation driven by fear" - fear of a collapse in U.S. and Chinese economic growth or a break-up of the euro zone.

"While this fear is not completely out of the market, we are going to see re-normalization of risk factors," Lombardo said.

"I'd say we are already seeing signs (the bond bubble is) deflating but it will be a multi-year process."

One reason for disenchantment is yield. Short-dated yields in "safer" markets such as Japan and Germany are negative and even long yields offer scant compensation for inflation.

German inflation, for instance, is at 2.2 percent but yields have not been at those levels since 2008. British 10-year real yields, adjusted for inflation, are minus 0.7 percent.

Analysts have warned that bondholders could suffer a lot of pain when yields suddenly spike higher. U.S. Treasury yields, for example, are well below their long-term average of 5 percent.

And fund managers, who are looking for returns which at least match inflation, are getting impatient.

"We need the yield curve to reflect normal market conditions. Normal market conditions when inflation is running at 2 percent are for yields above that," Utermann said.

Returns and yields are higher on emerging markets and junk-rated corporate bonds but so are perceived risks.

Richard Cookson, chief investment officer at Citi Private Bank, is overweight bonds, but he too reckons some sectors look topy, particularly in the junk debt sector.

"If I look down the credit curve, are parts of that a bubble? Possibly, when you get to the lower end."

Investors are still lapping up new issues, whether from top-rated firms such as Nestle (NESN.VX) or poor countries such as Zambia. Emerging dollar bond sales are headed for a record 2012 while U.S. companies have raised over \$1 trillion, near 2007 peaks.

The question is how much longer the bull run will last.

"We're done with the bond markets," said Saker Nusseibeh, head of Hermes Fund Managers. However, he acknowledged:

"It could go a little bit more, but call the top of the bubble, who knows?"

Bond veteran Dan Fuss at Loomis Sayles though thinks bonds are still the place to be, at least for another two years.

"I wouldn't call (this market) a bubble, I'd call it a very strong market," Fuss told the summit in New York but said there was evidence of "a spread bubble", where both yield spreads and underlying U.S. yields have collapsed.

"Put the two of them together and we have a valuation problem - big time," Fuss said.

In emerging sovereign debt for instance, the asset class of choice of many fund managers at the summit, yield spreads have contracted 120 basis points since the start of 2012.

At a time when central banks are pumping liquidity on an unprecedented scale, few will dare to dismiss the bond theme altogether. The United States has just started a \$40 billion-a-month money printing plan, giving another boost to Treasuries.

William de Vijlder, CIO of BNP Paribas Investment Partners, thinks there is no imminent risk of the trade going sour.

"If you were to be mispriced, this would only pop up when central banks start to tighten policy," he said.

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Chasing yield, investors favor credit again in 2013

BY KATYA WACHTEL
NEW YORK, NOVEMBER 30, 2012

The desperate hunt for yield will continue in 2013, with investor money continuing to flow into high yield “junk” bonds, corporate debt and mortgage securities as it has this year, albeit with lowered expectations on returns.

According to a dozen money managers at the Reuters Global Investment Outlook 2013 Summit, the Federal Reserve’s commitment to hold rates near zero until at least mid-2015 provides ample buying support for corporate credits.

This year, junk bonds and corporate debt markets have seen strong demand as the ferocious hunt for yield shows no signs of slowing with the JPMorgan Global HY index’s year-to-date return up 14.22 percent and the JPMorgan IG index return up 9.8 percent.

Returns from investments in those securities are now coming down significantly, forcing some money managers to get out of their comfort zones and take on much more risk than they would otherwise.

“The economy still show signs of slowing. Europe’s problems seem intractable,” said Bonnie Baha, senior portfolio manager of DoubleLine Capital. “Swinging for the fences strikes me almost as foolhardy at this point in the game.”

But it doesn’t look like the game is about to end.

So far this year, bond funds, including ETFs, have taken in over \$283 billion, according to Lipper data. In comparison, mutual fund-only outflows from equities is \$62 billion, though an improvement over last year’s \$94 billion outflow.

Steven Einhorn, vice chairman of Omega Advisors, a \$7 billion hedge fund founded by industry veteran Leon Cooperman, said the party in bonds will end “when investors begin losing money. You will then see these flows reverse. I don’t think it is imminent because of monetary policy at around zero.”

In September, both the European and U.S. central banks unveiled new bond buying programs. The massive monetary stimulus plans, which include very low short-term interest rates, have depressed yields on U.S. government debt to near record lows.

“There is such a lack of risk in the financial system right now,” said David Schawel, a fixed income portfolio manager and writer for Economic Musings. “Are rates really going to spike up 4.0 or 5.0 percent overnight?”

Junk bonds yielding in the high-single digits still provide an attractive opportunity with defaults on the decline.

“In fixed income, we are virtually all in high-yield,” said Margaret Patel, managing director at Wells Capital Management. “It still has the best risk reward” compared to Treasuries and investment-grade bonds, she said. “It is hard for me to see a big back-up in any fixed income investment, so why not get the extra yield?”

But not every investor is ready to jump into the deep and murkier end of the credit pool yet.

DoubleLine, the \$50 billion bond firm founded by Jeffrey Gundlach, has favored residential non-agency, mortgage-backed securities (RMBS) through 2012, said Baha.

Now, the firm is looking at commercial mortgage-backed securities (CMBS) to help raise returns in 2013.

“The talk of CMBS has been floating around the office,” Baha said, noting that while there is still an opportunity to make money in RMBS, the “more obvious trades have been completed.”

DoubleLine recently added to CMBS portfolio exposure in both its DoubleLine Total Return Bond and DoubleLine Core Fixed Income Fund CMBS exposure in the Core Fixed Income Fund portfolio is now approximately 7.0 percent.

This year through October, mortgage-focused hedge funds have gained 13.3 percent, according hedge fund tracking firm eVestment|HFN. Credit-focused hedge funds in general have performed well, gaining more than 10 percent through October.

Most hedge funds, which are trailing the broader stock market, rose only 5.0 percent on average over that period.

Money managers speaking at the Global Investment Summit said there is no doubt the residential mortgage securities trade has been one of the hottest of 2012, but with yields in those securities falling investors are rotating into bonds backed by commercial real estate instead.

“Non-agency mortgages have suddenly become this hot thing; subprime is trading inside of 5.0 percent yields,” said fixed income trader Schawel. “CMBS is more esoteric and harder for the average investor to understand, so there is more opportunities in a segment like that.”

Jeff Kronthal, who was the head of Global Credit, Real Estate and Structured Products at Merrill Lynch and now runs hedge fund KLS Diversified Asset Management, said he likes new issue CMBS, even though the market has been scared about the size of retail exposure in some of the deals.

“It’s one of our biggest positions,” he said, adding that with careful credit work and looking hard at the collateral, CMBS is an appealing investment. “Go to a mall - they’re busy,” he said.

Kronthal also said mortgage derivatives

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Big “known unknowns” seem less menacing in 2013

BY MIKE DOLAN
LONDON, NOVEMBER 30, 2012

The big “known unknowns”, to borrow from former U.S. defense secretary Donald Rumsfeld, are now so familiar to most global investors that they have to think long and hard about risks looming in 2013.

That's not to say money managers see no big pitfalls for next year. On the contrary: the world economy has rarely faced so many threats of political, policy and financial accidents.

And a glance at the election calendar for next year - with polls in Italy, Germany, Israel and Iran - shows there's no shortage of “event risks”.

It's just that a dominant triad of make-or-break issues that have hung over world markets for more than two years now - euro survival, the U.S. “fiscal cliff” and a Chinese hard landing - have almost become a tiresome mantra for most fund managers.

Many positioned against these or deserted related markets many moons ago and, for all the punch they still pack, it's now incremental shifts in probabilities that have become key.

The consensus from this week's Reuters Investment Outlook Summit for 2013 was that all three issues remain worrisome, but the menace from each is substantially less than a year ago.

On balance, most see the euro intact for the foreseeable future, with regional markets healing as recession-hit economies stabilize late next year. The United States is widely expected to reach some deal to limit tax hikes and spending cuts that could release pent-up corporate activity. And China may now even see at least a few quarters of a cyclical upswing.

The positive tilt emerges when they combine that with still-extreme investor positioning, unprecedented commitment to monetary

policy support and zero official interest rates, a U.S. housing recovery, easing fiscal drags in Europe and structural boosts such as the shale gas revolution in North America.

So much so that many chief investment officers and top fund strategists feel a big market turn may well be in the offing - even if five years of rolling financial, economic and political crises make all of them hyper-cautious in calling it so baldly.

The relentless demands of paying down debt, or deleveraging, may persist for years and keep aggregate world growth subdued. Yet markets should move in advance to price any normalization.

Ewen Cameron Watt, chief strategist at Blackrock Investment Institute - the research hub of the world's biggest asset manager - saw a “slow turn” on the horizon.

“There's \$1.7 trillion of investor cash on the sidelines. It is not going to come back in one go. It's hard to think that world is going to grow very fast. But a grinding bull market is possible.”

Barings Asset Management Chief Investment Officer Marino Valensise reckons equity markets and risk assets could make a “substantial rally” over the next 12 months, even if they may have to pay some of that back again over subsequent years.

Giordano Lombardo, CIO at Pioneer Investments, talked of a “normalization of risk appetite” for investors and flagged a strategic push to accumulate euro zone equities in particular.

But if the three dominant world risks are now in the “well known unknowns” category, what then of the wildcards?

With nearly all funds at this year's summit seeking to cut back on super-expensive government bonds such as U.S. Treasuries, German bunds or British gilts, many nursed longer-term worries about these and related credit spread markets.

Andreas Utermann, CIO at Allianz

Global Investors, reckoned the eventual popping of a “massive bubble” in core bonds would hit all markets. But this wouldn't happen as long as central banks kept buying bonds as part of quantitative easing programs and was therefore probably not a story for 2013.

Utermann saw a real risk of some blowup in the Middle East having a dramatic impact on oil prices and, by extension, a fragile world economy.

Even though hedge funds often thrive as much in big market downdrafts as bull markets, CQS founder Michael Hintze also reckoned regional conflict was a unpredictable variable.

“There's a whole load of geopolitical stuff out there that's absolutely not trivial. You could have Iran, the Middle East, Syria, Nigeria - what happens with narco terrorism in Mexico?” he said. “Who knows what's going to happen in North Korea or the South China Sea where 40 percent of world's trade goes through?”

Axa Investment Partners chief strategist Franz Wenzel was concerned about Japan, still the world's third largest economy. “Japan has, sadly, become a sideshow for many people but it's still a hugely important producer of electronic goods and sharp deterioration there could have ripple effects everywhere.”

Valensise at Barings said a wildcard could be “serious social unrest” or an extreme political development in the United States. “With this sort of inequality and political partisanship, you can't rule it out,” he said.

Rod Paris, Head of Investments at Standard Life Investments, reckoned another outside risk lay in reforms to battered banking sectors. Doubts and delays might prompt investors to withdraw again and trigger more bank capital stress and deleveraging.

Others worried about unfinished busi-

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Bond guru Dan Fuss doesn't see bond bubble

BY JENNIFER ABLAN
NOVEMBER 28, 2012

Dan Fuss, vice chairman and portfolio manager at \$182 billion Loomis Sayles & Co., thinks bonds will still be the place to be in 2013.

One of Wall Street's original kings of bond investing, said in an interview that fears the market for fixed income securities is in a bubble are overstated. The 79-year-old Wisconsin native characterized the performance of most bonds this year as simply reflecting "a very strong market", but one with more room to grow.

Indeed, this year, junk bonds and corporate debt markets have seen strong demand as the ferocious hunt for yield shows no signs of slowing with the JPMorgan Global HY index's year-to-date return up 13.6 percent and the JPMorgan IG index return up 9.6 percent.

Returns from investments in those securities are now coming down significantly in the wake of global central bank policies intended to suppress borrowing costs.

That is forcing some money managers to get out of their comfort zones and take on much more risk than they would otherwise.

Fuss isn't one of those who is worried.

"I wouldn't call (this market) a bubble - I'd call it a very strong market," Fuss, said in an interview with Reuters TV for the Reuters Global Investment 2013 Outlook Summit that began on Monday.

"It's hard for bonds to bubble. It's easy

for them to go the other way but it's hard for them to bubble because you're dealing with fixed contracts."

Sitting down for the interview at a popular Manhattan ice cream shop, Fuss, who has ice cream at least once a week, said when it comes to bond prices people often don't understand what a true bubble is.

"There's a limit you say 'Oh My Goodness, it was issued at 100 and it goes to 116' and you think that's a bubble - no that's not a bubble," said Fuss, eating chocolate ice cream. He was referring to the price of a bond that trades 16 points above its face value of 100 cents on the dollar. "If it goes to 250, that's a bubble and that doesn't tend to happen with bonds."

Still, it will be hard for 2013 to top this past year in many respects. Global high yield corporate debt issuance now totals \$341.6 billion in 2012 year-to-date, surpassing the all-time annual record \$322.9 billion set in 2010, according to Thomson Reuters figures. And so far, bond funds, including ETFs, have taken in over \$283 billion, according to Lipper data. In comparison, mutual fund-only outflows from equities is \$62 billion, an improvement over last year's \$94 billion outflow.

Fuss is known for his deep research on corporate credits and huge winning bets on unloved and battered debt securities, such as Ireland's bonds last year. He has brought huge returns for his investors. The Loomis Sayles Bond fund (LSBDX) is up 12.86 percent so far this year. On a three-year annual basis, it is up 10.32 percent. Over five years, the fund is up 7.38 percent on an annual basis.

Asked about Kathleen Gaffney, who was seen as his likely successor and recently

departed for Eaton Vance Corp., Fuss said: "Number one, Kathleen got a very attractive offer. Number two, 10 years ago--boy, time goes by--we set up something called the 'full discretion' team. Kathleen and Matthew Eagan and Elaine Stokes were listed co-portfolio managers in the mutual funds and that was the day that I decided to hang up my spurs and go out and eat ice cream full time."

Eagan and Stokes were both named co-PMs on the mutual funds since 2007, although both have been co-PMs on the institutional products for even longer. "They would take over," the Loomis Bond fund, Fuss added. "We added three more members to the team as the years went by. But they were not listed as co portfolio managers, plus there are four allocators with the account and one of the team sits in trading who can keep us informed about what is going on in the office."

Looking ahead to the new year, Fuss said at the top of his worry list is the political disruption that's possible around the world.

"Specifically, I worry about the Middle East and the South China sea (tensions)--those two areas of the world--and what you want when you're running money, the critical thing is you need peace," Fuss said. "The fiscal cliff and all that, it's a worry. The big thing, though, is this all going to end. People are shooting at each other and right now I have my hopes and my prayers. But I do see risk out there as there always is."

To see the Reuters TV interview with Dan Fuss, click here: reut.rs/11baXyc and here

Reporting By Jennifer Ablan; Editing by Matthew Goldstein and Andrew Hay



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Darcy Bradbury, Head of External Affairs at D.E. Shaw & Co, appears at the Reuters Global Investment Outlook Summit in New York, November 29, 2012.

REUTERS/CARLO ALLEGRI



DE Shaw shuns high-speed trading label, bets on Japan

BY HERBERT LASH

NEW YORK | THU NOV 29, 2012 11:51PM GMT

DE Shaw & Co, a once publicity-shy hedge fund known for quantitative modeling and immense computing power to drive strategies, does not see itself as a “high-frequency” trading firm.

The New York-based hedge fund, on a recent roll after stumbling with many others during the depths of the financial crisis, is moving to shed some of the secrecy that has long surrounded the firm founded in 1988 by David E. Shaw.

And these days the firm is intent on making clear to investors and the public just what it does and what it does not do with all its computer-driven programs.

High-frequency trading, a term without a clear definition but that involves “low-latency” or high-speed strategies, does not encapsulate DE Shaw, two of the firm’s managing directors said at the Reuters Global Investment Outlook 2013 Summit in New York.

HFT, in part because of the May 2010 flash crash, has become a lightning rod for criticism among a number of investors.

“I don’t think we view ourselves as high-frequency traders. No one can define what

high-frequency trading is, obviously. If it’s using computers to trade stocks, we’ve been doing that for 25 years,” said Darcy Bradbury.

Max Stone, who sits on DE Shaw’s five-person executive committee, said high-frequency trading fails to provide the deep liquidity a market ultimately needs. But he added: “In general, I don’t view (high-frequency trading) as a malevolent force.”

Less than half of the firm’s assets are managed under computer-driven models with short time horizons, Bradbury said. The remainder of the funds is managed using strategies that may take months to bear fruition.

While the profile of the company started by Shaw, a computer scientist, has changed from its early success in statistical arbitrage, finding anomalies in trading patterns or distortions in the market are still key traits.

Assets under management stood at \$27 billion as of October 1, according to the firm’s Web site. A year earlier on September 1, DE Shaw oversaw about \$21 billion in investment capital, an indication the firm has taken in new money and generated strong returns in 2012.

A big bet in the firm’s macro strategy is the enormous pile of savings in Japan that earns little interest, said Stone.

Markets in Japan are so distorted that yields on corporate bonds are trading about 150 basis points less than credit default swaps on the same company, Stone told the summit.

Stone didn’t say exactly how DE Shaw is playing his Japan strategy, but he said shorting the yen and Japanese government bonds while going long on Japanese equities would make sense.

“I believe that some form of this will be a trade that makes money. Whether it makes money in 2013, I think is open to question,” Stone said.

Stone did not say what catalyst would trigger success in his trade, but he said the amount of savings in Japan has stopped growing. Other investors have suggested that the government may need to seek funding abroad when it can no longer fund itself at home, which could force rates higher in the country.

Neither of the two directors would discuss specific performance numbers, but Bradbury said the firm has had “a really good year. We’re having very good performance”.

Reporting by Herbert Lash; editing by Andrew Hay

Fears of euro zone shocks recede

BY INGRID MELANDER
LONDON, NOVEMBER 29, 2012

What a difference a year makes. A Reuters' annual investment outlook summit 12 months ago was abuzz with debate over whether the euro zone would still be in place by the end of 2012, at least with all 17 members.

After another roller-coaster year that has brought Spain to the forefront of the debt crisis, the currency bloc is rattled but still intact and break-up fears have taken a back seat for global chief investment officers.

Reassured by a series of EU deals, including a Greek package on Monday, investors are returning to euro zone assets, pushing Italian 10-year benchmark borrowing costs to their lowest in nearly two years and Spain's to the lowest since March.

The protracted debt crisis is still on everybody's mind, with "bouts of nervousness" expected in 2013, BNP Paribas Investment Partners CIO William de Vijlder told this year's summit, held this week. But he expected news flow on the euro zone next year to be much less intense, at least for Greece.

Chief investment officers and investment strategists participating in the summit widely expected the euro zone to be in place a year from now, with Greece still in. The U.S. fiscal cliff has now usurped Europe's debt crisis as the biggest tail risk.

That is largely thanks to European Central Bank chief Mario Draghi, said hedge fund star Michael Hintze.

Draghi pledged in July to do whatever it takes to save the euro and followed up in September with plans to buy the bonds of

struggling euro zone states that request aid, offering a safety-net for Spain and Italy and triggering a rally in European shares.

"Draghi is very clever, he really knows how to play that game," said Hintze, founder of CQS fund.

Hintze still believes the risks of "mis-stepping along the way are very high" but says the ECB's bond-buying plans have bought time.

"What is clear to me is there is a political will to do something," Hintze said. "I think they are going to muddle forward."

Investors remain skeptical about how long that muddle-through approach will work and whether the European Union will manage to push through plans for a banking union. Opinion is also split on whether Greece will still be on board several years down the road, while worries over separatism in Spanish regions and fiscal woes in the bloc's second-largest economy France are additional sources of concern.

A fresh crisis on any of these fronts cannot be ruled out in a three-year debt saga that has been prone to setbacks whenever progress to a solution has looked to be in sight.

But this week's deal on Greece "clearly indicates how Europeans are determined to get this done, and we might underestimate that a little, how much drive politicians have to get this done," said Jelle van der Giessen, deputy CIO at ING Investment Management.

While some say that general elections in Germany next autumn could put some decisions on hold, including on the banking union, van der Giessen had few concerns.

"Pro-euro mentality in Germany is something I have very little worries about, I don't foresee that will be a major change," he said.

Even someone as bearish on the euro zone as Richard Cookson, Chief Investment Officer of Citi's (C.N) private bank, prefers European equities over U.S. shares.

"Europe's a mess and it's getting worse," Cookson told the summit, saying the bloc

was making a return to growth even more remote by imposing austerity on its debt-choked members.

But when it comes to making investment decisions, he favors European equities and the risk premium they offer: "At least you're paid for taking that risk," he said.

With Greece's immediate fiscal problems settled at least for now, the focus will turn next year to the much larger economies of France and Spain. The consensus is that Madrid will eventually ask for a bailout and that this would help European stocks.

Opinions were split on what would happen if Spain opted to keep trying to pull itself out of crisis without a bailout. For Andreas Utermann, Chief Investment Officer at Allianz Global Investors, that would be a big risk to take.

"If the Spaniards don't apply for support soon, by the middle of January for instance, I could easily see markets take a dim view on this and call their bluff, and push yields up. The ECB has to start buying (bonds), everything gets more febrile and expensive," he said.

"I don't say it will happen, but it's a big risk."

Summit participants stressed it was high time for France - stripped of its prized AAA-credit rating by Moody's this month - to embark on reforms to slash red tape, shake up its economy and cut its public deficit.

But most did not see any major crisis developing in the euro zone's second-biggest economy for now, if Paris gets its acts together.

"The de-industrialization of France - to change this trend in a matter of years is clearly a challenge, to put it mildly," said Paris-based Franz Wenzel, head of strategy at AXA Investment Management.

"But we are convinced that the political set-up has smelled the coffee, that they are doing their utmost to get back on track."

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Funds dismiss “death of equity”

BY MIKE DOLAN AND CHRIS VELLACOTT
LONDON, NOVEMBER 26, 2012

Senior European fund managers on Monday dismissed claims that equity investing was a thing of the past, with two top investors heralding double-digit gains in European stocks next year and beyond.

Speaking in London on the first day of Reuters Global Investment Outlook Summit for 2013, the managers reckoned there was sufficient stabilization of the financial and economic world after five years of crisis to bring relative valuations back into play and history showed the darkest hour is often before dawn.

Much unloved and historically under-owned euro zone stocks in particular may well be the investment pick of next year even in the face of the bloc's prevailing recession, austerity push and still considerable political risks, they said.

A claim this year by Bill Gross at U.S. bond fund Pimco that “the cult of equity is dying” may have captured disillusionment with assumptions of never-ending equity gains, but the investors reckoned it will also likely coincide with a significant bounceback in 2013 at the expense of pricey bonds and re-appraisal of equity's value in portfolios.

“Now is the moment to take strategic positions,” Pioneer Investments' Group Chief Investment Officer Giordano Lombardo told the summit, adding the seeds were there for double-digit gains for several years ahead.

“We will take all the market opportunities to add to our euro zone equity position,” said Lombardo at Milan-based Pioneer, which has \$200 billion of assets under management.

He said euro zone equities were under-

valued, under-owned and would benefit from a stabilization of the euro economy into the second half of next year as ‘fiscal drags’ ease and amid a reduction of competitiveness imbalances within the bloc.

There was little value left in core government bonds such as U.S. Treasuries, British gilts or German bunds, he said.

“There is no value in the safe havens.”

Saker Nusseibeh, head of Hermes Fund Managers, which is owned by Britain's largest pension pot, the former British Telecom Pension Scheme, was more emphatic.

“We're done with the bond markets,” he said. “It could go a little bit more, but call the top of the bubble, who knows?”

Despite a host of dire warnings about global depression, government defaults, euro collapse and earnings implosions, developed stock markets returned more than 10 percent in 2012 even as equity holdings stayed at historic lows - thanks largely to aggressive monetary easing from the world's top central banks.

But Nusseibeh said equity investing would see a renaissance of sorts after years in which big institutional investors pulled back for a range of reasons from high volatility, regulatory pressures, better liability matching and demographic pressures.

But he stressed he was not expecting the return of the bull markets of the pre-crisis era so much as a reassessment of the role of equities.

“The reason people first bought equities more than 100 years ago was not because the price of the stock appreciated, they bought it because it paid a dividend,” the Hermes Chief Executive Officer said. “The big turn in equities ... will happen when people start thinking about equities slightly differently and they are beginning to.”

Nusseibeh, who also said the best quality U.S. and European equity names could generate double-digit gains next year, expects equity buyers to divide into two camps: a mainstream looking to dividend-paying stocks as a source of income and a second more speculative faction seeking a jump in value.



BNP Paribas Investment Partners CIO, William De Vijlder, speaks during the Reuters Global Investment Outlook 2013 Summit in London.

REUTERS/BENJAMIN BEAVAN

Still, the skepticism with which top funds continue to view equities was illustrated by Brussels-based William de Vijlder, CIO at BNP Paribas Investment Partners.

De Vijlder told the summit he remained neutral on equities for the year ahead and that equities would remain a “final frontier” in the post-crisis normalization of economies and markets.

Characterizing equities for many investors as bitter-tasting oranges, he said they would only be eaten once all the juice had been drained from the sweeter fruit - such as corporate debt and emerging market bonds.

“Can you see 15 percent on equities? Yes, but it's a conditional forecast,” de Vijlder said.

There would continue to be caution about policy mistakes in such an extraordinary economic and policy climate worldwide, fear of mispricing in many markets and a need to see all the efforts to kickstart economies gain real traction.

“For many investors the cult of equity is to a large extent dead - many pension and insurer funds within particular short-term regulatory frameworks for example,” he said.

But “there will come a point for very long-horizon investors and you will see equity culture returning for them.”

Additional reporting by Sujata Rao; Graphics by Vincent Flasseur; Editing by Susan Fenton

Hedge funds face profit headache in 2013

BY LAURENCE FLETCHER
LONDON, NOVEMBER 27, 2012

Hedge funds' glory days seem a long way off as they head into a tricky 2013, with bumper profits likely to remain elusive in markets now dominated by political and central bank action.

Speakers at the Reuters Global Investment 2013 Outlook Summit said the \$2 trillion industry, which has disappointed investors with below-market returns this year and losses last year, faces a headache making money in an environment where markets are choppy and not as buoyant.

"We're now (in) a world where we recognize that the ability to make money is a lot more difficult and there aren't that many people who can do it. There simply aren't enough, it just doesn't exist," said Saker Nusseibeh, CEO of Hermes Fund Managers.

"Lots of hedge funds are not making even a positive return. They should be doing 4-5 percent. And they're not ... Suppose it's the smartest people with the smartest models, and they've had 10 years' practice. If you give me 10 years I'm sure I can come back and play the piano badly."

Hedge funds made double-digit returns in seven out of nine years between 1991 and 1999, according to Hedge Fund Research's HFRI index, and made returns of more than 9 percent every year between 2003 and 2007 inclusive amid rising markets.

However, their secret sauce of 'alpha' - profits due to a manager's skill rather than overall market moves - has been hard to find in the 'risk-on, risk-off' environment where markets can be more influenced by the words of euro zone politicians and central bankers than companies' fundamentals.

Funds have lost money in two of the four calendar years prior to 2012, according to HFRI. This year the average fund is up just 2.24 percent to November 23, accord-

ing to the HFRX index, well behind a 12.1 percent gain in the S&P 500 index .SPX.

Some star managers have been able to thrive in this environment, betting on anything from Greek debt to rising stocks to asset-backed securities.

CQS Chief Executive Michael Hintze, one of the industry's most influential managers, has returned 29 percent from his Directional Opportunities fund in the first 10 months of the year and told the summit he sees a "target-rich environment" in 2013 with opportunities shorting bonds using credit default swaps.

However, fund executives say there may be fewer opportunities for the industry - which has ballooned in size over the past 10 years - as a whole to exploit.

"Alpha delivery can be very difficult. If you have risk-on, risk-off it can be more difficult," William De Vijlder, CIO of BNP Paribas Investment Partners, said.

"There are less big valuation discrepancies around," he added. "You think of 2006 or 2007 and then you think of early 2009 and huge valuation gaps. So perhaps now this is a more difficult (environment) ... When you have something that is very much central

bank-led it's much more difficult."

However, De Vijlder said long-short funds, which bet on rising and falling prices but which have struggled as their bets often move in the same direction - may profit as correlations between stocks in an index come down.

Meanwhile regulation such as curbs on naked credit default swaps, short-selling bans and greater reporting requirements could all make life tougher for the sector.

Giordano Lombardo, group chief investment officer at Pioneer Investments, said his portfolios had adopted some hedge fund-like techniques in recent years, such as protecting against losses by buying hedges.

But he said that increased regulation could make life tough for many funds.

"The sector is going through a maturity crisis. Post (being a) teenager you have to decide what to do with yourself," he said.

"The hedge fund world is going to be more regulated and follow more the rules or the general investment industry. That will force out of the market players not willing to play the game in that way."

Editing by Susan Fenton



CQS Founder, CEO and SIO Michael Hintze speaks during the Reuters Global Investment Outlook 2013 Summit in London November 27, 2012. REUTERS/BENJAMIN BEAVAN

Invest in food on climate change risk: Baring

BY CAROLYN COHN
LONDON, NOVEMBER 29, 2012

Farmland in Brazil, soybeans and agricultural equipment makers are among ways to play the global risks of climate change and population growth, Baring Asset Management's chief investment officer said.

Melting ice at the North Pole is affecting weather patterns in the northern hemisphere, just when the world will have more mouths to feed, particularly in Africa, Marino Valensise, chief investment officer of Baring Asset Management, told the Reuters Global Investment Outlook 2013 Summit.

"(Climate change) is a disaster," Valensise told the summit, held at the Reuters office in London.

"We don't know whether there will be warming or not warming, we just know it will be different and this brings a lot of volatility to weather ... which is bad for agriculture."

Surging food prices have been an issue over the past two years, particularly in emerging markets, and were seen as a factor driving the Arab Spring uprisings.

More problems over food, particularly as the global population grows, could lead to further instability and social unrest which

would only drive food prices even higher, said Valensise of Baring, which has assets under management totaling 31 billion pounds (\$49.71 billion).

Investments may not pay off on a one-year horizon, but are likely to be profitable on a five to 10-year bet, Valensise said.

"If there is one thing I would choose for the next 10 years and never touch it, that's the one," he said.

"I'm not young but I'm not old, I'm putting (it in) my pension fund and I think I have enough years to see this theme (out)."

Agricultural commodities have surged this year, and other participants at the summit said the drought in the United States and its impact on wheat had offered buying opportunities.

Investors could get into the agricultural investment theme by buying wheat, soybeans and corn, directly or through an exchange-traded fund (ETF), buying the stocks of large agricultural companies or equipment makers like Monsanto (MON.N) or Deere & Co (DE.N), or taking tracts of agricultural land, Valensise said. It was also possible to arbitrage between the different types of investments.

Inequality and the risk it throws up for social unrest are a concern not just for poorer parts of the world, but also for the United

States, where the widely used GINI measure of wealth distribution shows the average worker no better off than 20 years ago, Valensise said.

But positive signs in the housing sector should help U.S. consumer sentiment, he added.

In an investment environment which appears to contain fewer uncertainties next year than over the past few years, Valensise said he liked riskier emerging market equities, rather than stocks in Europe.

"We have decided to by-pass Europe altogether and go from the U.S. to emerging markets," Valensise said.

"If the world economy is stabilizing and there is going to be more risk appetite, what do you want to buy?"

The European banking sector was particularly problematic after years of crisis and continued deleveraging, he said.

"Banks are a broken business. We do own certain banks in Europe, when there is a fundamental reason, but the group as a whole ... is not compelling enough to go into."

*Additional reporting by Alice Baghdjian;
Editing by Susan Fenton*



Baring Asset Management's chief information officer, Marino Valensise, speaks during the Reuters Global Investment Outlook 2013 Summit in London November 29, 2012.

REUTERS/BENJAMIN BEAVAN

HSBC sees China stocks rebounding, SE Asia pricey

BY NISHANT KUMAR AND VIKRAM SUBHEDAR
HONG KONG, NOVEMBER 29, 2012

Chinese shares are at a turning point as the country shows “definite evidence” of a recovery in corporate earnings, a top strategist at HSBC Global Asset Management said, adding that Southeast Asia stocks looked expensive.

Bill Maldonado, who oversees about \$80 billion as the chief investment officer in Asia-Pacific for the money manager, picked Greater China among the top-three opportunities in the world for 2013 and said he particularly favored Chinese financial, consumer cyclical, materials and energy sector stocks.

Southeast Asian markets such as the Philippines and Indonesia, investor favorites since the financial crisis, are starting to look overpriced, Maldonado, who is underweight the region, told the Reuters Global Investment 2013 Outlook Summit on Thursday.

The Hong Kong-based executive, who left an academic career in laser physics for the financial industry nearly 20 years ago, said investors have realized that China will avoid a hard landing and they could get a 20 percent return in China from current valuation levels.

“But they’re not jumping in yet,” said Maldonado. “They’re saying: ‘That sounds really good but we’re just going to keep watching for a bit longer.’”

“I’d say that’s very typical of markets at turning points,” Maldonado said.

The Shanghai Composite Index .SSEC fell below the 2,000-point level this week for the first time since January 2009 and has dropped about 10 percent so far in 2012.

HSBC was early with its bet on a China rebound and has suffered as a result, with the HSBC Asia ex Japan Equity fund returning 10.3 percent through September this year, underperforming a 16 percent

jump in its benchmark index.

Maldonado’s belief about a rebound, however, remains intact, with China Mobile (0941.HK), China Construction Bank (601939.SS), CNOOC (0883.HK) and Industrial and Commercial Bank of China (1398.HK) finding a place in the fund’s top-10 picks.

The fund executive, who etched out diagrams on a white board in the Reuters office to show valuation patterns in China, said macro concerns in the world were abating and fundamentals were coming back to the fore.

Maldonado, who holds a PhD and is a former Oxford University student, said HSBC Global Asset has exhausted its QFII quota, which allows foreign funds to invest in mainland markets.

Investors pumped money into Southeast Asian countries this year as the confidence in the region with a combined economy of \$2 trillion lured them with steady economic growth and a rapidly growing middle-class.

Maldonado, however, is less bullish on the region.

Barring United Overseas Bank (UOBH.SI), no other company from the region figured in HSBC Asia ex-Japan fund’s top-10 holdings at the end of September.

The 49-year-old said while the region had good long-term promise, investors may be ignoring valuations that are starting to look stretched.

“Growth at any price is not a winning strategy and to some extent that’s what’s happening in ASEAN,” he said.

Indonesia, at 3.1 times price-to-book value, is Asia’s most expensive equity market on that basis, followed by Philippines and Thailand, according to Thomson Reuters Starmine. Asia trades at 1.4 times and China at 1.6 times.

The so-called defensive sectors such as consumer staples and healthcare, which investors



Bill Maldonado, HSBC Global Asset Management’s Chief Investment Officer (CIO), Asia-Pacific and Strategy CIO for Equities globally, speaks during the Reuters Global Investment Outlook Summit in Hong Kong November 29, 2012e. **REUTERS/TYRONE SIU**

piled on as a safe bet in a slowing global economy, are expensive, Maldonado said.

A recurring theme across regions that Maldonado said he is seeing is the heavy divergence between valuations of cyclicals - or sectors most geared to economic growth - and defensive sectors.

For example, the Chinese consumer staples sector tracked by MSCI is trading at its highest price-to-earnings multiple and the biggest premium to Chinese materials in the past decade, according to Thomson Reuters I/B/E/S.

“The valuation difference is huge and what I always say to people who are overweight defensives and underweight financials and cyclicals, is, please explain to me, please make up a scenario that would make that valuation logical,” he said.

“My problem is that if a company is twice or thrice as expensive as the market, how is that defensive?”

Editing by Michael Flaherty and Muralikumar Anantharaman

U.S. housing gains momentum but recovery fragile

BY ROS KRASNY
NEW YORK, NOVEMBER 29, 2012

The signs of life in the U.S. housing market may be encouraging, but not all money managers are convinced that rising home sales and values can provide serious momentum to the U.S. economy in 2013.

The still unresolved issue of some 10 million underwater mortgages - where the amount owed is larger than the current value of the house - remains a key impediment, said speakers at the Reuters Global Investment Outlook 2013 Summit in New York.

Also weighing on the nascent housing recovery is the possibility that the popular home mortgage interest deduction - used by millions of Americans when assessing their taxes - will be capped or otherwise reduced as part of efforts by lawmakers to avert the "fiscal cliff."

The White House and Congress are negotiating to avert the fiscal cliff or combination of U.S. government spending cuts and tax rises due to be implemented under existing law in early 2013 that may cut the federal budget deficit but also tip the economy back into recession.

The housing sector has been a point of relative strength this year in an economy beset by flagging business confidence and cooling demand from abroad.

A report last week showed a surprisingly sharp gain in home resales in October, while data this week showed prices for single-family homes have risen continuously since February. Economists expect home construction to add to economic growth this year for the first time since 2005.

"I think we're clearly in a (housing) recovery. All the metrics point in that direction," said Rick Sharga, executive vice president at Carrington Mortgage Holdings, a firm that has been buying up foreclosed

homes in distressed markets and renting them out.

He quickly added: "But we're not exactly in a real estate boom, and there could be two or three years of marginal growth still to come."

Sharga pointed to positive trends in existing and new home sales, rising prices and falling foreclosures, and less tangible elements such as pent-up demand from new household formation.

But the risks to the housing market's comeback are mounting.

If the mortgage interest deduction is reduced, it could crimp the appreciation in home prices as it will impact the amount of dollars would-be homeowners can borrow. The popular deduction makes it easier for homebuyers to borrow larger sums of money because interest on the loan can be partially deducted from their tax bill.

Pew Charitable Trusts has estimated that the mortgage interest deduction saved taxpayers about \$80 billion in 2010, with tax breaks skewed heavily to those making over \$100,000 a year.

There are other headwinds facing housing in the new year.

Difficulties in getting a mortgage despite rock-bottom interest rates remain a stumbling block, especially for young buyers who typically dominate the market for first-home buyers, strategists said.

But at least the jobless rate for younger adults, in the 25- to 34-year-old range, is starting to fall, noted Jeff Kronthal, managing partner at the hedge fund KLS Diversified, who offered a moderately upbeat housing outlook.

"Do I think housing is going to go back through the roof? No. But I do think housing is going to go up in the next couple of years," Kronthal said.

Nationally, beaten-down home prices are only getting back to 2003 levels,

Sharga noted.

But the Case Shiller figures underlined how there is really no "national" housing market but a series of local markets whose fortunes are often not aligned.

The year-on-year gain in home prices in Phoenix, for example, was 20 percent as that city recovers from some of the worst losses in the 2008-2009 market slump. Certain other downtrodden cities, including Detroit, also posted brisk gains.

Some strategists and policymakers continue to look for large-scale solutions to the hangover of the housing bubble, including potential principal writedowns of underwater loans.

"Developments over the last six months may have reduced the problems, but they are still in the hundreds of billions of dollars," said Damon Silvers, a policymaker with the AFL-CIO.

"If you don't reset debt to have some relation to the current value it will be an ongoing and huge drag on the economy," Silvers said, continuing to hamper consumer demand and impair labor mobility.

But Sharga said that with most holders of underwater mortgages still making monthly payments and housing values slowly, if selectively, rising, forced principal balance reductions were too blunt a tool.

"If I'm 10 percent underwater and the market is appreciating 5 percent a year, I'm not really underwater," he said.

Data firm CoreLogic said in September that some 10.8 million U.S. houses had underwater mortgages in the second quarter, about 22 percent of all U.S. homes with a mortgage.

That was down from 11.4 million properties, or 23.7 percent, three months earlier.

The firm said about 1.8 million of borrowers currently underwater would be back to equilibrium if home prices rose 5 percent.

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FBI uses Twitter, social media to look for securities fraud

BY MATTHEW GOLDSTEIN AND
JENNIFER ABLAN
NOVEMBER 26, 2012

The FBI sees social media as a potential breeding ground for securities fraud, and has agents scouring Twitter and Facebook for tips, according to two top agents overseeing a long-running investigation into insider trading in the \$2 trillion hedge fund industry.

April Brooks, a special agent in charge of the New York field office of the Federal Bureau of Investigation, and David Chaves, a supervisory agent, said it is hard to predict the next wave of securities fraud, but they add that it will have a lot to do with advances in technology and social media.

"I will tell you technology will play a huge part, social media, Twitter. Any kind of technology that is new and doesn't exist today, if there is any way to exploit it, these individuals will exploit it," Brooks told Reuters TV in an interview for the Reuters Investment Outlook 2013 Summit.

Brooks and Chaves oversee what the FBI calls "Operation Perfect Hedge," which has led to more than 60 convictions of hedge fund

traders, analysts and industry consultants.

Last Tuesday, a day after the Reuters TV interview, the government charged a former employee of Steven A. Cohen's SAC Capital, Mathew Martoma, with a \$276 million insider trading scheme that prosecutors called "the most lucrative" ever.

While Cohen, whose \$14 billion hedge fund is one of the most successful and best known on Wall Street, was not charged with any wrongdoing, the complaint says he signed off on trades in Elan Corp and Wyeth in July 2008 ahead of bad news about a clinical drug trial the companies were working on.

Brooks and Chaves gave no hints about the SAC case in the interview, and declined to talk about active investigations.

"Some view insider trading as reaching this crescendo, and we have reached a top. I would suggest we have not," Chaves said.

Hedge funds, big institutional investors and investment research firms, such as Muddy Waters (@muddywatersre), have embraced Twitter as a platform for sharing their ideas and investment strategies.

On November 20, PIMCO's Bill Gross tweeted via @PIMCO: "Bernanke confirms PIMCO's New Normal after 3 years! 2% economic potential at least for a time. Probably lower & longer Mr. Chairman."

Gross was referring to Ben Bernanke, chairman of the Federal Reserve, and PIMCO's portfolio positioning for what he calls a "New Normal" developed world economy - 2.0 percent real growth and 2 percent inflation.

"People have used Twitter as a powerful distribution mechanism, occasionally with meaningful market impact," said independent

analyst Daniel Yu, who is an avid user of Twitter under the handle @LongShortTrader.

Studies and research reports have shown that Twitter can be used as an early indicator of changing investor sentiment around particular stocks and commodities. This allows Twitter data to be used to predict price fluctuations in the market.

One report, authored by academics Johan Bollen, Huina Mao and Xiao-Jun Zeng, says the degree of "calmness" of the Twittersverse can predict - with 87.6 percent accuracy - how the Dow Jones industrial average will move two to six days ahead of time.

Some hedge funds and other investors have criticized U.S. authorities for cracking down on insider trading to distract attention from the fact that law enforcement has not been able to bring any prosecutions against Wall Street bankers over the financial crisis.

Brooks and Chaves acknowledged the criticism. They said there is a desire to prosecute, but the laws are not there to criminalize actions that some think deserve to be punished.

"I wouldn't say we have missed opportunities," Brooks said, commenting on the 2008 financial crisis. "There may be others who are responsible, but who don't necessarily violate the federal statutes."

The two agents, who both work in the securities division of the New York branch of the FBI, said that when they meet with people on Wall Street, they explain there is no vendetta or campaign against the hedge fund industry. The insider trading investigation is simply part of an effort to make the markets more fair for everybody.

"The message is we are out there, and we are going to continue to be out there," Brooks said. "This type of violation, this type of crime impacts everyone."



The main headquarters of the FBI, the J. Edgar Hoover Building, is seen in Washington on March 4, 2012. **REUTERS/GARY CAMERON**



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Reporting by Matthew Goldstein and Jennifer Ablan; Editing by Tiffany Wu and Jan Paschal

Occupy Wall Street leader keeps heat on

BY MATTHEW GOLDSTEIN
NEW YORK, NOVEMBER 26, 2012

Cathy O'Neil, the organizer of the Occupy Wall Street alternative bank group, likes to call herself a "math nerd," who is looking to do something meaningful with her academic training.

The former Barnard College math professor and former quantitative hedge fund analyst is the guiding force behind a group that is trying to keep OWS a relevant movement now that last year's protests in lower Manhattan over income inequality are something of a distant memory.

It is one reason the 40-year-old mother of three young boys got involved with OWS, around the time the protest movement was just gathering steam in August 2011.

"We want to make public comments and we want to continue to be heard," said O'Neil in an interview with Reuters TV for the Reuters Global Investment 2013 Outlook Summit. "That is our thing."

For about a year now, O'Neil and two dozen other people - many of them former Wall Street types like herself - gather every Sunday in a Columbia University classroom to talk about how to keep the pressure on elected officials in Washington, D.C., to make the financial system more accountable and transparent.

Quite often, the OWS bank group's

members disagree among themselves about how to regulate the financial system. At one Sunday meeting earlier this year, the group got into a heated yet wonky debate over how money is created and whether bank lending should require implicit approval of Congress.

But the group has found enough common ground to help write recommendations to the U.S. Securities and Exchange Commission on how to protect money market fund investors and submit legal briefs on pending regulatory actions against Wall Street banks. The group also is in the process of putting together brochures that explain how the banking system works in plain English for average citizens.

Now the OWS bank group is gearing up to lobby elected officials to refrain from making cuts in Social Security and Medicare simply in response from Wall Street pressure to reduce the federal deficit.

O'Neil says she is concerned that Obama might pick Erskine Bowles as Treasury Secretary, saying the co-author of the Simpson-Bowles deficit reduction plan is too committed to cuts that could hurt average people.

"There are a lot of magical numbers that are going on around Social Security and Medicare that says we can't afford it so we have to cut it," said O'Neil. "But we want to see the numbers. That is what the 99 percent want."

The 99 percent, of course, is reference to the OWS rallying cry that too much of the financial benefits in the United States go to the top 1 percent of income earners.

Then again, O'Neil knows the 1 percent well, having worked for two years at

D.E Shaw & Co., a \$27 billion hedge fund and investment firm that specializes in using mathematical formulas and computer programs to do its trading. O'Neil was at the hedge fund during the same time as Lawrence Summers, the former Treasury secretary and former economic advisor to President Obama, who earned about \$5 million in compensation.

O'Neil left the hedge fund, in part, because she was disillusioned with finance. More recently, she left a data science job with an online commerce company and is looking to write a book that will demystify math and finance.

In her quest to make something meaningful of her Ph.D in math, she taught this summer at a math camp at Hampshire College in Massachusetts for high school students. It was the same math camp that O'Neil went to as a teenager, when she described herself as a "chubby math nerd with coke-bottle glasses."

O'Neil said one reason she went back to math camp as a counselor was to inspire young students interested in math to do more than simply teach, work on Wall Street or go into data science - all of which she has done.

"I would love there to be a fourth alternative," said O'Neill, "where they can engage in the world and do something they can be proud of. That's not necessarily easy to find."

To see the Reuters TV interview with O'Neil, click here: link.reuters.com/qyz24t

Reporting By Matthew Goldstein; Edited by Jennifer Ablan

REUTERS TV



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“Macro Thinkers” no magic bullet for huge investment returns

BY JENNIFER ABLAN
NOVEMBER 23, 2012

Thinking big is all the rage these days with U.S. money managers. Many are hiring high-profile economists to help them better navigate global economic and geopolitical events.

Hedge funds and other institutional investors are tapping so-called macro thinkers like economists Martin Feldstein, Henry Kaufman and former Federal Reserve Chairman Alan Greenspan at a time when fundamental analysis is often being overwhelmed by big-picture political and governmental risks.

This year alone, hedge fund EQA Partners brought on former Federal Reserve governor Randall Kroszner, and Brevan Howard, a British-based hedge fund, hired Shelley Goldberg, a former commodities strategist at Nouriel Roubini's Roubini Global Economics.

Yet with the mediocre performance this year of macro funds that make wagers on big-picture events, it is surprising that even more narrowly focused hedge funds keep turning to famous macro thinkers for advice. Skeptics say it may simply be a case of fund managers looking to find cover for positions they take by bringing on a famous name to justify their moves to investors.

Indeed, it's been a frustrating year even for the best investors, not just managers of macro funds, which are down more than 1 percent year-to-date, according to Hedge Fund Research. The overall hedge fund industry is up a meager 5 percent, roughly half of the gain posted this year by the benchmark Standard & Poor's 500 index.

The rough time for hedge funds is showing up in some high-profile closures like former Goldman trader Pierre Henri-Flamand, who is shutting his Edoma Partners, citing “unprecedented market conditions.”

Former SAC Capital and Tiger Management portfolio manager Matt Grossman is winding down his hedge fund, Plural Investments, for similar reasons.

Others like hedge-fund titan Louis Moore Bacon are citing “disappointing” returns as the reason to pull back the reins and shrink some. Bacon, for instance, is returning \$2 billion to investors in his \$8 billion flagship Moore Capital Management fund. Bacon, who manages one of the better known macro-oriented funds, said even he has found it difficult to navigate the markets in the face of unprecedented central-bank intervention and government involvement to prop up ailing banks and national economies.

But the need for macro thinkers is a phenomenon that is not going away any time soon - if for no other reason than the markets have become increasingly chaotic and subject to strong gyrations emanating from world events that often have little to do with the fundamentals of a particular company or industry sector.

“I would imagine that amid so much uncertainty, a time when so much seems contingent upon the unknowable actions of policymakers around the globe, having some certainty about the underlying economic fundamentals takes on even greater importance,” said Stephanie Pomboy, president of MacroMavens LLC. “It also gives one a framework for analyzing the likely fruitfulness of possible fiscal and monetary policy actions.”

In that regard, it's why EQA Partners, whose expertise lies in currencies and traditional global macro strategies, hired Kroszner as a partner and chief economist, a new position.

And this fall, Eurasia Group launched a new Emerging Markets Strategy group, which will identify critical political risk themes that cut across the entire EM space.

The group will be led by Christopher Garman, director of Eurasia Group's Latin America practice, with Alexander Kliment, a senior analyst in the firm's Eurasia practice.

Not only are big money managers hiring macro thinkers as consultants, but macro-focused research firms such as Penso Advisors, Eurasia Group, Macro Risk Advisors and Roubini Global Economics are being sought out for their expertise and access to top economists.

Macro Risk Advisors, for instance, has hosted private dinners and roundtable discussions for clients with Harvard University professor and economist Ken Rogoff and former Fed Vice Chairman Don Kohn.

The macro marquee names don't necessarily translate into winning strategies, however.

Hedge fund billionaire John Paulson, whose flagship fund fell roughly 35 percent last year, admitted to his investors that in 2011, he was overly optimistic about the speed of the U.S. recovery and underestimated the magnitude of Europe's debt crisis.

Paulson, whose go-to macro guys are Greenspan and Feldstein, has called last year's performance “unacceptable” and said he was committed to delivering a “superior investment performance” in the future.

But Paulson, who hired Feldstein a year ago to help with his economic forecasts and to join his advisory board, is still licking his wounds, as his flagship fund is down about 12.5 percent through October 31.

Overall, macro thinkers often don't manage money so they aren't in a position to understand hedging or mitigating risk. And some observers see the move by hedge fund managers to bring a big-name economist into their fold as nothing more than window dressing to give assurance to investors.

“These economists are hired for marketing purposes, not for their ideas,” said

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Memorable Quotes from 2013 Investment Summit

BY SAM FORGIONE AND KATYA WACHTEL
NEW YORK, NOVEMBER 30, 2012

Investors, policy makers, and analysts spoke at the Reuters Global Investment Outlook 2013 Summit in New York, London, and Hong Kong. Below are some memorable quotes from New York discussions:

BONNIE BAHA, SENIOR PORTFOLIO MANAGER AT DOUBLELINE CAPITAL: “The term (fiscal cliff) is going to become a new drinking game...My fear is that the can gets kicked down the road for at least a 6-month period.”

STEVEN EINHORN, VICE CHAIRMAN OF OMEGA ADVISORS: On his selection for a possible successor to Treasury Secretary Timothy Geithner “If you ask who I’d like to see, those two (JP Morgan CEO Jamie Dimon or Erskine Bowles) would be terrific. And if either one were appointed Treasury Secretary, it would be worth something to the S&P 500 .SPX.”

JASON ADER, CEO OF ADER INVESTMENT MANAGEMENT: “If you really look at new mortgage originations, it’s very low, and the individuals are not out buying homes.”

VERNE SEDLACEK, PRESIDENT AND CEO OF COMMONFUND: On whether he would invest with portfolio managers who have come out of S.A.C. Capital, given the insider trading scandal associated with several former staff: “We will definitely be much more critical in terms of our evaluations if somebody came out of (hedge fund) S.A.C.”

DAMON SILVERS, DIRECTOR OF POLICY AND SPECIAL COUNSEL FOR THE AFL-CIO: “All matters relating to (Edward DeMarco are mysterious to me.”

TED SEIDES, PRESIDENT AND CO-CIO OF PROTEGE PARTNERS: “Funds usually succeed with the ethos of one leader. You need one driver and one back-seat driver... Starting a hedge fund is starting a business. It’s not the same thing as being a talented analyst or even being a talented portfolio manager.”

Seides on men in finance: “It’s a male dominated industry. Men, particularly in financial services, are less self-aware than other men, and women generally.”

MAX STONE, MANAGING DIRECTOR AT D.E. SHAW & CO.: “(Libor is) not inherently broken... You can strengthen the laws. But that’s a problem that can and should be solved, and I think is largely solved at this point.”

DANIEL YU, INDEPENDENT HEDGE FUND ANALYST: “Microsoft (MSFT.O) is a great short...Microsoft is this big Goliath in a room full of many little Davids who are very busy throwing slingshots at them.”

MARGARET PATEL, MANAGING DIRECTOR AT WELLS CAPITAL MANAGEMENT “I am, in my fixed income allocation, virtually all in high yield because I still think junk bonds have the best risk-reward.”

DAVID SCHAWEL, FIXED INCOME PORTFOLIO MANAGER: “I’m not a big fan of Mortgage REITs...There’s a lot of dumb money that are chasing this in hopes of this yield.”

TERESA HEITSENRETH, GLOBAL HEAD OF PRIME BROKERAGE AT J.P. MORGAN (JPM.N): “The capital rules are going to prevent that ‘back to old bad habits’ again across the industry. The capital en-

vironments are going to be onerous enough that it will just not make economic sense to get beyond certain reasonable limits in leverage.”

JOHN BRYNJOLFSSON, CIO OF ARMORED WOLF: “The fiscal cliff, we’ll get through it because we know what Congress is going to do. They’ve done it every time for the past 40 years, which has been to spend more, tax less, have bigger deficits - and they’re going to pat each other on the back and say ‘we’ve done great.’”

HENRY KAUFMAN, PRESIDENT OF HENRY KAUFMAN AND COMPANY, INC.: “(Big banks) are too complex. They’re too diverse...Spin off investment banking. No financial conglomerate should have a mutual fund operation in it. No financial conglomerate should have wealth management in it.”

Additional reporting by Svea Herbst-Bayliss, Emily Flitter, Herbert Lash, and Steve Johnson; Editing by Jennifer Ablan and Andrew Hay

Summit Speakers



Andreas Utermann
Global CIO
Andreas Utermann



Saker Nusseibeh
CEO
Hermes Fund Managers (BT Pension Fund)



David Schawel
Fixed Income Portfolio Manager
(no title)



Carson Block
Director of Research and Founding Partner
Muddy Waters



Max Stone
Managing Director
ED.E. Shaw & Co.



John Brynjolfsson
Managing Director and CIO
Armored Wolf



David Chaves
Securities Program Coordinator
NY FBI



Jelle van der Giessen
Deputy CIO
ING Investment Management



Michael Hintze
Founder, CEO and SIO
QS



Franz Wenzel
Chief Strategist
AXA Investment Managers



Giordano Lombardo
Group CIO
Pioneer Investments



Steve Gluckstern
CEO
Mortgage Resolution Partners



Jeff Kronthal
Co-Founder and co-CIO
KLS Diversified



David Saunders
K2



Todd Petzel
CIO
Offit Capital Advisors



Marino Valensise
CIO
Baring Asset Management



Cathy O'Neil
Organizer/Facilitator of OWS Bank Group
Occupy Wall Street Bank Group



Bill Maldonado
CIO, Asia-Pacific and Strategy CIO for
Equities globally
HSBC Global Asset Management



Rod Paris
Investments
Investments



Andrew Swan
Head of Asian Equities
BlackRock



Dan Fuss
Vice Chairman and Portfolio Manager
Loomis Sayles



Ted Seides
Co-founder, Co-CIO
Protege Partners



April Brooks
Supervisory Special Agent
NY FBI



Erik Brynjolfsson
Prof. of Information Tech. and Director, The
MIT Center for Digital Business
MIT



Teresa Heitsenrether
Global Head of Prime Brokerage
J.P. Morgan Investment Bank



Damon Silvers
Top Policy Maker
AFL-CIO and



Henry Kaufman
President
Henry Kaufman & Company, Inc.



Marc Lasry
Chairman, CEO and Co-Founder
Avenue Capital Group



William_De_Vijlder
CIO
BNP Paribas Investment Partners



Jason Ader
CEO
Ader Investment Management



Richard Cookson
CIO
Citi Private Bank



Tad Rivelle
Chief Investment Officer of Fixed Income
TCW



Ewen_Cameron_Watt
Chief Strategist
BlackRock Institute



Steven Einhorn
Vice Chairman
Omega Advisors



Rick Sharga
Vice President
Carrington Mortgage Holdings



Daniel Yu
Private Investment Manager



Verne Sedlacek
President and CEO
Commonfund



Margaret_Patel
Managing Director
Wells Capital Management

FOR MORE INFORMATION:

Jennifer Ablan

jennifer.ablan@thomsonreuters.com

Matthew Goldstein

matthew.goldstein@thomsonreuters.com

Mike Dolan

mike.dolan@thomsonreuters.com

Sinead Cruise

sinead.cruise@thomsonreuters.com

Nishant Kumar

nishant.kumar@thomsonreuters.com

Nina Andrikian

nina.andrikian@thomsonreuters.com

Benjamin Beavan

benjamin.beavan@thomsonreuters.com