Bloomberg BRIEF

Hedge Funds | 04.26.11

Winton Replaces Moore in Rankings by Assets

BY KELLY BIT

Winton Capital Management LLC, the hedge fund started by **David Winton Harding**, bumped **Louis Moore Bacon**'s **Moore Capital Management LLC** from the list of the 20 largest hedge fund firms after assets surged by 34 percent.

The $20 billion Winton Capital, which is based in London, climbed to 14th place from 21st, according to data compiled by Bloomberg as of April 7. Moore Capital in New York fell to 21st from 20th six months ago, with assets unchanged at $15 billion. London's **Man Group Plc** became No. 1 at $69 billion with its Oct. 14 purchase of **GLG Partners Inc.**

Harding founded Winton Capital in 1997. He co-founded the **AHL Diversified Plc** computerized-trading program in 1987.

The Winton Futures Fund, the firm's largest at $7.3 billion, climbed 3.8 percent this year through April 22, according to a person briefed on the returns. The fund gained 15 percent in 2010.

Moore's flagship, the $7.4 billion Moore Global Investment Fund, declined 0.6 percent this year through April 7, according to a person briefed on the returns. The fund advanced 4.8 percent in 2010. The $4.6 billion Moore Macro Managers Fund rose 0.2 percent in the first quarter and 12 percent last year, the person said.

"They're not trying to raise a ton of money," said **Emma Sugarman**, head of the U.S. capital-introductions group at **BNP Paribas SA** in New York.

Man Group's assets surged to $69 billion from $39.5 billion after the firm acquired GLG Partners for $1.6 billion to try to reduce its dependence on Man AHL Diversified, which had accounted for more than a third of its assets under management. AHL declined 4.9 percent this year through April 20 after gaining 16 percent in 2010.

The largest 20 hedge funds' assets increased 10 percent to $582.5 billion from $528.2 billion six months ago, Bloomberg data show.

Funds with $5 billion or more pulled in 51 percent of new investor money in the first quarter, according to Chicago-based **Hedge Fund Research Inc.**

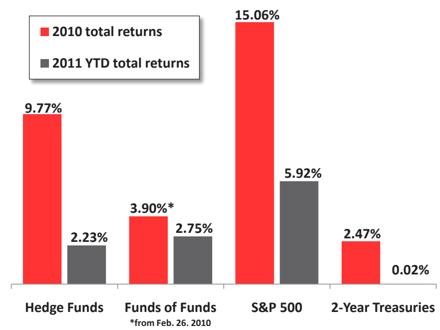
The hedge-fund industry exceeded $2

continued next page

INSIDE

Hedge Fund Returns

Bloomberg BAIF indices, which represent all funds tracked by Bloomberg data, are the source of the below hedge fund and fund of funds data.



2011 YTD RETURNS BY STRATEGY

STRATEGY	% RETURN
Equity Statistical Arbitrage	7.24
Mortgage-Backed Arbitrage	6.32
Asset-Backed Securities	5.95
Capital Structure Arbitrage	3.91
Fundamental Market Neutral	3.81
Convertible Arbitrage	3.17
Emerging Market Equities	3.08
Long/Short Equities	2.96
Multi-Strategy	2.86
Fixed-Income Arbitrage	2.36
Merger Arbitrage	2.28
Distressed Securities	2.16
Long-Biased Equities	1.77
Emerging Market Debt	0.59
Global Macro	0.37
CTA/Managed Futures	-0.53
Short-Biased Equities	-1.35

Source: Bloomberg Hedge Fund Indices
Type HFND<GO> to view return statistics

NEW HEDGE FUND LAUNCHES

FIRM	FUND	MANAGER	LOCATION	ASSETS ($MLN)*	ANTICIPATED LAUNCH DATE
Boodell & Company GP LLC	Boodell Value Capital Partners LP	Peter Boodell	New York	8.6	Launched Mar 1

**Commitments To Date*

PERFORMANCE SNAPSHOT: MERGER ARBITRAGE

A look at some of the best-performing merger arbitrage hedge funds that report to Bloomberg data. Only funds that have reported performance through at least Feb. 28 are included. For questions please contact Anibal Arrascue at aarrascue@bloomberg.net

By Trailing 12-Month Total Returns

FIRM	FUND	MANAGER	INCEPTION DATE	SHARPE RATIO	RETURN %
Havens Advisors LLC	Havens Intl Enhanced Fd Ltd-A	Nancy Havens-Hasty	12/30/2005	2.43	18.72
Evenstar Capital Management Ltd	Evenstar Sub-Fund I	Team Managed	1/5/2005	5.59	12.48
Credit Suisse Asset Managemen	Credit Suisse Mer Arb Liq Index-B	Peter Little	3/17/2010	2.28	9.73
Dexia Asset Management	Dexia Long Short Risk Arbitrage	Sophie Elkrief	3/24/1999	2.51	7.57
Green & Smith Investment Mgmt LLC	The Merger Fund Ltd	Roy D Behren	1/2/1996	2.31	6.30
Gabelli Securities Inc	Gabelli Associates Limited-A	Raffaele Rocco	8/31/1989	3.44	5.94
Green & Smith Investment Mgmt LLC	Hudson Valley Partners LP	Roy D Behren	9/1/1987	2.21	5.89
York Asset Management Ltd	The Lion Fund Limited	S Nicholas Walker	12/29/1995	1.72	5.80
Glenfinnen Capital LLC	Glenfinnen-Highland Cap Mgmt LP	Jeff O'Brien	4/1/2000	2.61	5.67
First Eagle Investment Mgmt LLC	Aetos Corporation-A	Jason Dahl	1/1/1986	1.47	5.34

By Trailing 5-Year Annualized Returns

FIRM	FUND	MANAGER	INCEPTION DATE	SHARPE RATIO	RETURN %
Evenstar Capital Management Ltd	Evenstar Sub-Fund I	Team-Managed	1/5/2005	3.83	14.36
Glenfinnen Capital LLC	Glenfinnen-Highland Cap Mgmt LP	Jeff O'Brien	4/1/2000	3.63	12.72
Havens Advisors LLC	Havens Intl Enhanced Fd Ltd-A	Nancy Havens-Hasty	12/30/2005	0.85	10.79
Green & Smith Investment Mgmt LLC	The Merger Fund Ltd	Roy D Behren	1/2/1996	1.00	7.69
CDC Overseas Fund Management	NATIXIS Const-Eur Events-I EUR	Frederic Babu	7/31/2003	0.73	7.26
Green & Smith Investment Mgmt LLC	Hudson Valley Partners LP	Roy D Behren	9/1/1987	0.70	5.72
Gabelli Securities Inc	Gabelli Associates Limited-A	Raffaele Rocco	8/31/1989	0.72	4.85
First Eagle Investment Mgmt LLC	Aetos Corporation-A	Jason Dahl	1/1/1986	0.63	4.67
KDC Investment Management LP	KDC Merger Arbitrage Fund LP	Christopher Pultz	5/15/1981	0.64	4.52
York Asset Management Ltd	The Lion Fund Limited	S Nicholas Walker	12/29/1995	0.05	2.06

FOR SHARPE RATIO CALCULATION METHODOLOGY TYPE FLDS SHARPE <GO> ON BLOOMBERG. "RISK FREE RATES" IDOC 2047613 <GO>

THE WORLD'S BIGGEST FIRMS

RANK	FIRM	LOCATION	ASSETS ($BLN)
1	Man Group	London	69
2	Bridgewater Associates	Westport, Conn.	62
3	Paulson & Co.	New York	36
4	Brevan Howard Asset Management	London	32.3
5	Och-Ziff Capital Management	New York	28.7
6	Soros Fund Management	New York	27
7	BlackRock	New York	26.6
8	Highbridge Capital Management	New York	25
9	BlueCrest Capital Management	London	24.5
10	Baupost Group	Boston	24
	Cerberus Capital Management	New York	24
12	Angelo Gordon & Co.	New York	23.5
13	Farallon Capital Management	San Francisco	21.5
14	King Street Capital Management	New York	20
	Winton Capital Management	London	20

Source: Bloomberg Rankings

WINTON REPLACES MOORE...

continued from page 1

trillion for the first time at the end of the first quarter, marking a recovery from record investment losses and client withdrawals during the financial crisis.

Pension funds are contributing most to the growth of the industry, according to **David Shukis**, director of hedge-fund research and consulting at Boston-based **Cambridge Associates LLC**, an adviser to institutional investors.

Man's ascendancy knocked **Bridgewater Associates LP** to second place in the rankings, even as Westport, Connecticut-based Bridgewater grew 3.3 percent to $62 billion.

TOP STORIES THIS WEEK

BY BLOOMBERG NEWS

Rajaratnam Jury Set to Deliberate for Second Day

Galleon Group LLC co-founder **Raj Rajaratnam**'s fate rests with jurors as the panel is scheduled for a second day of deliberations in the insider-trading trial.

U.S. District Judge **Richard Holwell** in Manhattan yesterday instructed jurors on the law of conspiracy and securities fraud and asked the panel to weigh the evidence presented at the trial of Rajaratnam, who prosecutors said was worth at least $1 billion the day of his arrest in October 2009. The jury, which deliberated for four hours, is scheduled to return today.

Rajaratnam, 53, faces five counts of conspiracy to commit securities fraud and nine securities fraud charges. The conspiracy counts each carry a maximum five-year prison sentence and the fraud charges each carry a maximum 20-year term. The Sri Lankan-born money manager denies wrongdoing.

The jurors hail from Westchester County, the Bronx and Manhattan. The panel includes teachers, a retired bookkeeper who served with the Israel defense forces, an activities therapist for a private nursing home, a nurse, a customer-service representative for the Metropolitan Transportation Authority and a three-decade veteran food-service worker for New York's Education Department.

Yesterday, the panel selected Juror 9 as its foreman. He is a 56-year-old resident of the Bronx who is a graphic artist and works for **Apple Inc.**

—Patricia Hurtado, Bob Van Voris and David Glovin

ATRS Considers Global Macro, Credit Hedge Funds

The **Arkansas Teacher Retirement System**, with about $11.2 billion in assets, is considering global macro and credit hedge fund investments on the recommendation of its consultant, **Hewitt EnnisKnupp Inc.**, according to the minutes of its Feb. 7 meeting.

The consultant recommends searching for and choosing two global macro and two credit hedge fund managers with an allocation of $50 million each. ATRS currently allocates 25 percent of investments to "illiquid or low liquid investments," such as real estate, private equity, and alternatives such as timber and agriculture.

Hewitt said ATRS should give priority to the hedge funds because their "expected return is similar to stocks, they provide a diversification benefit, and are timely due to volatility of market and uncertainty in credit."

ATRS approved the investment committee's recommendation to invest up to $50 million each in **Anchorage Capital Partners**, **York Capital Management**'s York Credit Opportunities Fund and the Capula GRV Master Fund.

ATRS also approved the investment committee's recommendation to invest up to $40 million in **Tennenbaum Capital Partners LLC**.

ATRS is still considering the investment committee's recommendation to allocate up to $50 million to **Graham Capital Management**'s Graham Proprietary Matrix fund, conditional upon negotiation of annual fees.

ATRS is also considering an investment in Man AHL Alpha.

—Kelly Bit

$100 Bln Still Locked in Distressed Funds, Kinetic Says

More than $100 billion in assets are still locked up in distressed hedge funds since the 2008 financial crisis, according to London-based **Kinetic Partners LLC**.

Investors are increasingly pursuing redeeming their money from the funds, the firm said in a report this month.

"We've seen a notable increase this year in the number of investors elevating efforts to realize their holdings in these funds through targeted legal actions against the underlying funds or, in some cases, the fund managers themselves," said **Geoff Varga**, head of the distressed funds practice at Kinetic Partners.

—Kelly Bit

INVESTOR FOCUS

Ben Stein Says He Likes Event-Driven Funds

BY KELLY BIT

Ben Stein, the lawyer, economist, actor and recent author of "The Little Book of Alternative Investments: Reaping Rewards by Daring to be Different," said he likes event-driven hedge funds because of the opportunities in the market.

"This has been an absolutely monumental recent period for event-driven arbitrage, so that's what I love," Stein said in an interview.

He dislikes currency hedge funds because the strategy is "too treacherous."

"I don't have any confidence that the people I'd be working with can outperform any kind of index of it," he said.

Stein's only hedge fund investment is in New Canaan, Connecticut-based **Rangeley Capital Partners LP**, run by **Chris DeMuth**, nephew of Stein's co-author **Phil DeMuth**, who also helps manage Stein's personal money. Rangeley, a merger arbitrage strategy, has returned close to 23 percent annually since 2008 and was up 5.5 percent in the first quarter of this year.

Retail investors should invest in exchange-traded funds or mutual funds that replicate hedge fund returns, Stein said, because they charge lower fees and have better terms.

"These simulacra of hedge funds are going to completely change that world," he said. "That is the wave of the future. If you're getting the same results as you get if you're paying 2 and 20, why not go with the $5,000 minimum investment and the fee of $100?"

The federal government's insider trading investigation is also another reason to avoid investing in traditional hedge funds, he said.

"Financial theory tells you that you cannot beat the large indexes unless you are getting inside information, and I don't want to be part of anything that involves inside information."

The Wire

BY BLOOMBERG NEWS

LAUNCHES

Ex-Goldman Banker Starts Japanese Blog Fund

Former **Goldman Sachs Group Inc.** banker **Hideki Furusho** and a University of Tokyo professor have teamed up to create a hedge fund that invests in Nikkei 225 futures based on a model that analyzes Japanese blogs.

The Pluga AI Fund, which uses web-mining technology developed by **Yutaka Matsuo**, an associate professor at University of Tokyo, is aiming to raise 5 billion yen ($61 million) after starting with 30 million yen in August, said Furusho, the founder of **Pluga Capital Co.**, which runs the fund. Pluga plans to target overseas investors starting from June, he said.

The fund has returned 7.5 percent since launching in August, he said.

The fund, which targets annual returns of 30 percent, every day makes an investment decision to either buy, sell or not invest in Nikkei 225 futures based on the algorithm model, and closes its position at the end of trading by cashing out to maintain liquidit, Furusho said. The algorithm finds patterns between blog data and stock movements to form its investment decision.

The fund eventually aims to expand its investment universe, such as bets on overseas futures and foreign exchange markets, as it incorporates wider web data beyond Japanese blogs, Matsuo said in the same interview.

—Tomoko Yamazaki and Shunichi Ozasa

ON THE MOVE

UBS Hires Asia-Pacific Prime Services Head

UBS AG hired **Tim Wannenmacher** from **Nomura Holdings Inc.** as head of prime services for the Asia-Pacific region, according to an internal memo.

Wannenmacher will replace **David Gray**, who left the Swiss bank after 17 years, according to the memo.

Wannenmacher, who was most recently global head of prime services and delta one at Nomura, will join UBS in early May. He previously ran prime services in the region for **Lehman Brothers Holdings Inc.**

—Cathy Chan and Netty Ismail

Mizuho to Lose Three Electronic Trade Execs

Mizuho Financial Group Inc.'s brokerage arm will lose three executives from its electronic trading group in Tokyo, said two people with direct knowledge of the situation.

Anthony Brooker, who runs the team, **Nobuo Wazaki**, head sales trader, and **Kiyohiko Hirose**, in charge of the electronic trading service desk, resigned and will leave Mizuho as early as June. The three employees previously worked at Lehman Brothers.

The departures come less than three years after Mizuho hired 16 people from Lehman Brothers to provide algorithmic trading for clients. The employees are leaving in part because Mizuho is focusing more on domestic rather than global business under new management.

—Takahiko Hyuga

Paulson Paid 9 Cents for Lehman Bonds

BY LINDA SANDLER

Paulson & Co. paid as little as 9 cents on the dollar for some of its $4 billion in **Lehman Brothers Holdings Inc.** senior bonds, according to a court filing.

A bondholders group including New York-based Paulson and the California Public Employees' Retirement System made the filing in response to a U.S. bankruptcy judge's order that the group disclose details about its members. The group is fighting to control defunct Lehman's $61 billion liquidation with a payout plan that competes with Lehman's own proposal.

Paulson paid 9 cents on the dollar for $5.1 million of Lehman's senior bonds on Dec. 1, 2008, according to the filing. He paid 34 cents to 35 cents when Lehman filed bankruptcy on Sept. 15, 2008. Calpers paid 86 cents to $1.04 on the dollar for $90.1 million of Lehman's senior bonds between July 2006 and December 2007, according to the filing.

Paulson and other senior bondholders are being offered 21.4 cents on the dollar in Lehman's liquidation plan, and as much as 24.5 cents in the Paulson-Calpers proposal.

The bondholders group was formed around May 2009 to share the costs of participating in Lehman's bankruptcy, according to the filing. Its steering committee comprises Paulson, Canyon Capital Advisors LLC, Fir Tree Inc. and Taconic Capital Advisors LP. The bondholders own $16.1 billion in face value of Lehman's senior bonds, they said in the filing.

The Wire *continued from page 4*

BY BLOOMBERG NEWS

DEALS & DEAL-MAKING

Citadel Cuts E*Trade Stake to Under 10%

E*Trade Financial Corp. said **Citadel LLC** will sell shares of the online brokerage, cutting its stake to less than 10 percent, after it sold almost 24 million shares less than two months ago.

Citadel, which injected capital to help E*Trade avoid bankruptcy three years ago, plans to sell 27.5 million shares through **Morgan Stanley**, according to an E*Trade statement yesterday. E*Trade won't receive any proceeds. The offering is set to close on about April 29.

The hedge fund will have an almost 10 percent ownership stake after the sale, according to a spokeswoman for E*Trade.

Kenneth Griffin, the founder of Chicago-based Citadel, joined E*Trade's board in June 2009. The money manager sold 170 million shares in April 2009, cutting its stake from 33.2 percent, and announced another 24 million in February, reducing the stake to less than 20 percent.

E*Trade got a $2.55 billion cash infusion from Citadel in November 2007 to help it weather losses from bad loans and shore up its banking unit. The New York-based company on April 20 posted quarterly earnings and sales that exceeded the average analyst estimate, according to data compiled by Bloomberg. It has posted a profit in three of the last four quarters.

—Whitney Kisling

Elliott Boosts Danisco Stake Ahead of Deadline

Elliott Associates LP, which says **DuPont Co.**'s 31.7 billion-krone ($6.2 billion) bid for **Danisco A/S** is too low, raised its stake the company to 4.9 percent, according to a person familiar with the situation.

Elliott is confident DuPont won't get the necessary approval from investors holding at least 90 percent of Danisco's shares before its tender offer expires April 29, according to the person.

The Danish food-ingredients maker, agreed in January to DuPont's 665-kroner-a-share offer. Wilmington, Delaware-based DuPont's Chief Financial Officer **Nicholas Fanandakis** said April 15 that he was "very confident" the deal would be completed at the current price this month.

New York-based Elliott said in a February letter it held 1.2 percent of shares and that the bid undervalues the company.

—Jack Kaskey

MSD Withdraws From All Saints Bidding

U.K. retailer **All Saints** says negotiations to inject 100 million pounds ($165 million) of capital into the company continue after **Michael Dell**'s **MSD Capital LP** investment company withdrew, the Financial Times reported.

Goode Partners, a U.S. private equity firm, is leading the bid to buy out the stakes owned by collapsed Icelandic banks Kaupthing Bank hf and **Glitnir Bank hf**, the paper said. MSD pulled out of the group yesterday, it said. The banks have hired **Ernst & Young LLP** to sell the stakes, the FT said.

—Nandini Sukumar

Japan Pensions to Boost Alts, Survey Says

BY TOMOKO YAMAZAKI AND KOMAKI ITO

Japanese pension funds plan to increase investments in alternative assets and pare their holdings of domestic bonds and stocks this fiscal year to diversify portfolios and bolster returns, a survey showed.

Thirty-two percent of 119 Japanese pension funds aim to increase investment in assets such as hedge funds in the year ending March 2012, according to a survey by **JPMorgan Chase & Co.**'s Tokyo-based asset management unit. They also plan to keep investing in emerging-market stocks and bonds, it showed.

"We're expecting further diversification to continue going forward among pension funds' investment strategies," **Hidenori Suzuki**, head of the strategic advisory group at JPMorgan Asset Management (Japan) Ltd., said. "The trend to lower domestic bond holdings is rather new."

Almost 89 percent of 79 respondents said the March 11 record earthquake and ensuing tsunami that led to a nuclear disaster does not have a "major" impact that will force them to change their investment plans, the survey showed. Still, about 11 percent said there are concerns that investments may not be carried out as planned or may change depending on the situation, it showed.

JPMorgan surveyed 119 Japanese pension funds with combined assets of about 10 trillion yen ($122 billion) in its preliminary report. It plans to release a full report in May.

ARBITRAGE ALERT

Silver Expensive Relative to Gold

BY MICHAEL MCDONOUGH, BLOOMBERG ECONOMIST

Have the Hunt brothers returned?

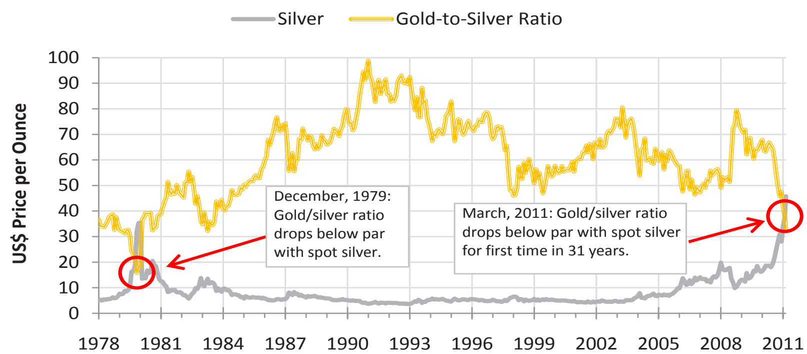
On January 18, 1980, the price of silver reached an all-time nominal high of $49.45 an ounce, having gained over 200 percent in less than 60 days, mostly thanks to **Nelson Bunker Hunt** and **William Herbert Hunt**, two brothers who cornered the market using significant leverage.

As a side effect, the relationship between gold and silver began to break down as silver prices rose at a much faster pace. Investors found themselves paying just 14 ounces of silver for an ounce of gold, versus the current 31-year average of 62.5 ounces.

The same pattern can be seen today. Silver has gained some 150 percent in about 240 days, quickly approaching its earlier nominal highs and outpacing gains in gold prices of about 75 percent over the same period. Investors are paying about 33 ounces of silver for an ounce of gold currently.

Why the pattern is repeating isn't obvious. Inflation- or risk-averse investors would typically move into both gold and silver, failing to explain the divergence between the two. It is possible that demand for silver -- used in many manufacturing applications, unlike gold -- may be playing a role. China imported more than twice the U.S.'s annual production of silver in 2010, and demand for the metal has probably increased as global manufacturing indices have rebounded. Or someone may have snapped up a large portion of the silver market, a move about which there have been rumors for months now.

Whatever the cause, the silver-to-gold ratio is worth careful monitoring. The Hunt Brothers' escapade ended in an event known as "Silver Thursday," with a $100 million margin call on the pair, a market crash that saw the price of silver decline by 78 percent from January to May, and a $1.1 billion U.S. private bank-sponsored "bailout" to avoid the potential collapse of the financial system.



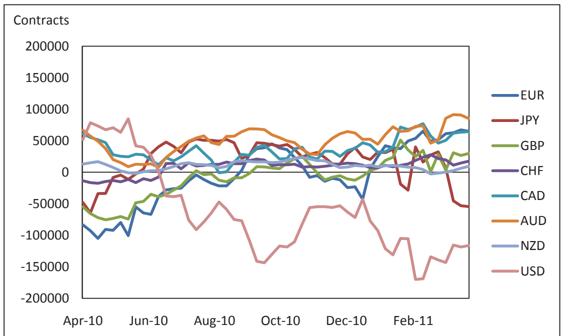
Source: Bloomberg Data

Commitments of Traders

DAVID POWELL, BLOOMBERG ECONOMIST

Risk appetite declined during the reporting period. Hedge funds and other large speculators sold the Australian dollar and bought U.S. Treasury securities, gold and oil. Those shifts may have since been reversed.

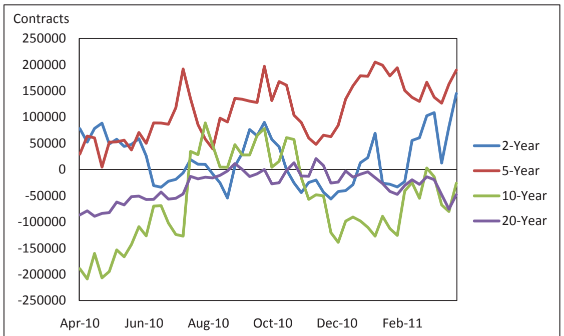
Currencies



Source: *Bloomberg* Note: 1 USD contract = $200,000; Futures + Options

Funds reduced their net long position in Australian dollars by 5,286 contracts in the week ended April 19 - the largest change during the reporting period - as the S&P 500 declined. That shift has probably since been reversed with the latest bout of risk aversion having subsided. The position remains crowded with the ratio of net longs to open interest at 0.56.

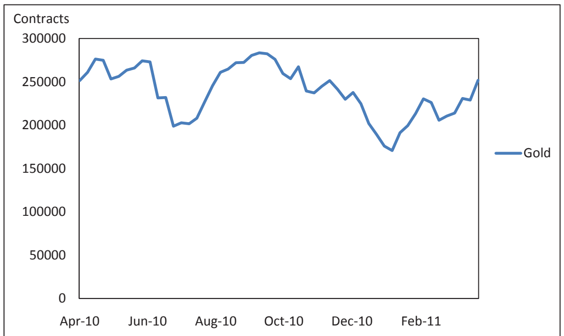
U.S. Treasury Securities



Source: *Bloomberg* Note: Futures + Options

Hedge funds and other non-commercial accounts piled into U.S. Treasuries as risk appetite declined. They purchased a total of 172,781 contracts on two-, five-, 10- and 20-year securities. Two-year notes were the most popular, with speculators acquiring 63,877 contracts. That net position is 2.5 standard deviations above the one-year average versus 1.3 in the previous week, suggesting it is vulnerable to correction, certainly more than the positions in 10- and 20-year bonds.

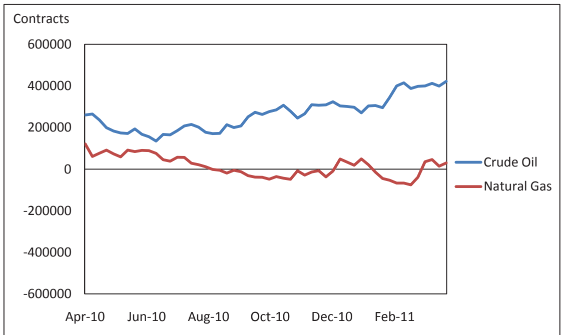
Gold



Source: *Bloomberg* Note: Futures + Options

Speculators purchased 22,817 contracts on gold during the reporting period, bringing the net long position to 251,710. That is only 0.4 standard deviation above the one-year average versus minus 0.3 in the previous week, suggesting it is not overcrowded.

Energy Products



Source: *Bloomberg* Note: Futures + Options

Managers bought 22,895 contracts on crude oil. The position is 2 standard deviations above the one-year moving average versus 1.8 in the previous week. In contrast to the historical norm, a rise in risk aversion appears to be positive for oil prices in the present environment, because the civil unrest in the Middle East is causing both to rise.

THE SHORT OF IT

WILL GORDON, SENIOR RESEARCHER, DATA EXPLORERS

Canadian Stocks: Rare Earth, Tanzania, TMX Group

The first three months of 2011 have continued much like the end of last year where Canada's securities finance market is concerned. The supply of equities available for borrowing equated to 6.5 times the demand to borrow. The value of inventory has risen in line with the markets.

Sixty percent of equities are loaned against non cash collateral. For sovereign bonds this ratio is 85 percent.

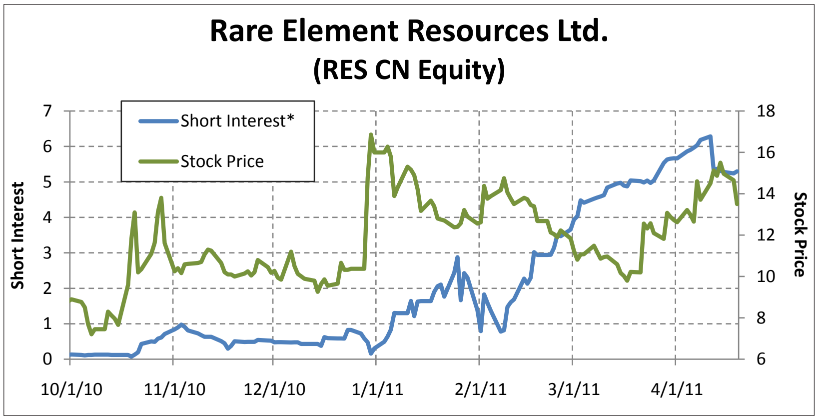
Two smaller companies showing strong borrowing demand are **Tanzanian Royalty Exploration Corp.** and **Rare Element Resources Ltd.** The short interest in Tanzanian Royalty Exploration doubled in the fourth quarter of 2010, to 9 percent. It has come down to 6.5 percent, still triple the average, as the gold exploration company's share price drifted lower.

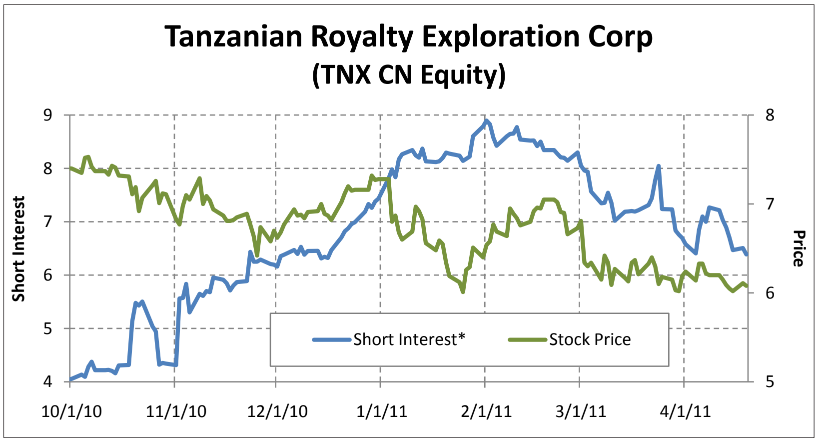
The increased demand to borrow Rare Element Resources stock is more recent, having gone from nothing to 6 percent this year. The shares quadrupled over the last 10 months as it is one of very few non-Chinese companies with rare earth assets.

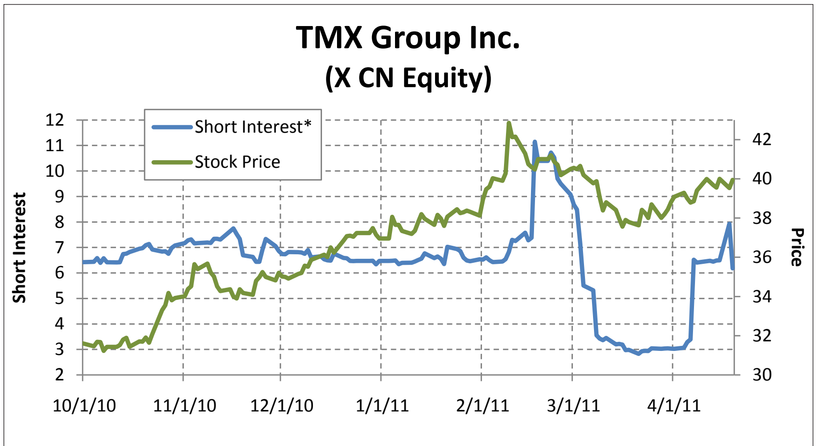
Demand for **TMX Group Inc.** has been sporatic. The proposed merger with the **London Stock Exchange Group PLC** is subject to the blessing of the government. If the same protectionist logic seen with **Potash Corp** is applied in this case, it is far from a done deal. Some investors clearly agree, with short interest at 6 percent of TMX's shares, up from 4 percent in early March. Still, it was even higher in February, at 11 percent.

Since **Yellow Media Inc.**'s floatation in late October, the demand to borrow its shares has risen sharply, to a fresh high of 22 percent So far, this has been a profitable trade since the company floated at C$6.2 and now trades at C$4.8.

Will Gordon is a guest columnist whose views do not necessarily reflect those of this publication. He can be reached via email at willduff.gordon@dataexplorers.com







*as percentage of shares outstanding

13F FORENSICS: GREENLIGHT CAPITAL

David Einhorn's Greenlight Capital Offshore Fund returned roughly 12.5 percent in 2010, with its largest holding likely playing a substantial role. Contract drilling company **Ensco PLC** gained over 37 percent including reinvested dividends last year and has rallied another 11 percent since Dec. 31. **Sprint Nextel Corp.** was the largest new addition to Greenlight Capital's portfolio in the fourth quarter, followed by **BP plc**. Both stocks have rallied by around 13 percent this year. Still, the $2.2 billion fund has lost 3 percent this year through March 31. Its long position in **CIT Group Inc.**, which has decreased 10 percent this year, may have had an impact.

Holdings by Market Value

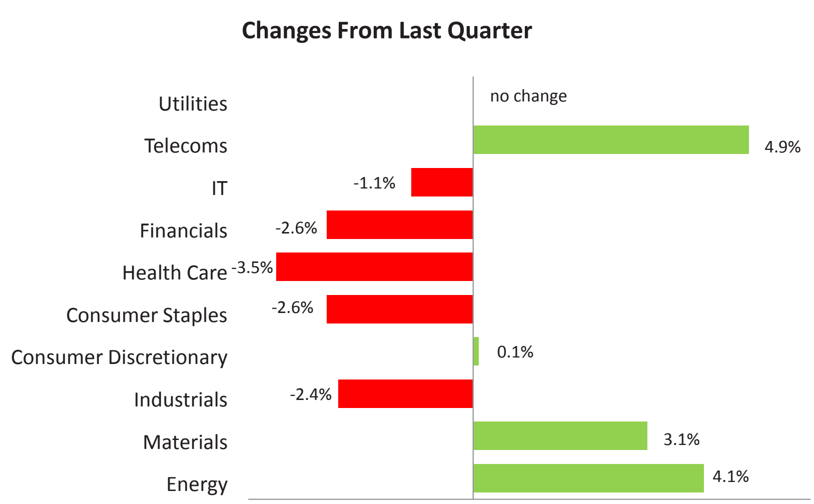
HOLDING	% PORTFOLIO	% HELD	MARKET VALUE*	CHANGE IN MARKET VALUE*	RETURN SINCE DECEMBER 31
Ensco PLC	10.04	6.30	481	78	11%
Pfizer Inc	8.46	0.29	405	8	14%
CIT Group Inc	7.22	3.64	346	-87	-10%
CareFusion Corp	7.18	6.00	344	12	14%
Apple Inc	5.64	0.91	270	33	9%
Cardinal Health Inc	5.29	1.89	253	36	12%
Sprint Nextel Corp	4.94	1.89	236	236	13%
Market Vectors Gold Miners ETF	4.55	2.84	218	74	1%
Microsoft Corp	4.48	0.90	214	27	-9%
NCR Corp	3.68	7.20	176	20	24%

** $millions*

SECTOR SPECIFIC

Aggregate sector-specific portfolio changes from Q3 to Q4.

Einhorn's new position in Sprint Nextel was the sole contributor to the fund's 4.9 percentage point increase in telecom holdings. The wireless communications company is also the only telecom company in its portfolio. The purchase of BP shares and a new position in **SemGroup Corp.** boosted Greenlight's energy holdings. Einhorn held close to 5 percent of the energy transportation company's shares as of Dec. 31. SemGroup's shares have gained close to 3 percent since then. The decrease in healthcare holdings came largely from selling 1.24 million shares of **Health Net Inc.**



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Regulatory/Compliance

BY BLOOMBERG NEWS

Mass. to Regulate Expert-Network Firms

Massachusetts plans to regulate expert-network firms, the first state in the U.S.

The proposed regulation will require state-registered investment advisers that pay expert-network firms to obtain written certification that the firms aren't subject to any confidentiality restrictions and won't provide confidential information, Secretary of the Commonwealth **William F. Galvin** said in an e-mailed statement.

Galvin said the regulations governing expert-network firms will take effect after a public comment period and a public hearing on June 23.

—Charles Stein

S. Africa Plans 'Interventions' to Improve Rules

South Africa is looking at "interventions" to improve regulation of hedge funds, Deputy Finance Minister **Nhlanhla Nene** said at the annual conference of the International Organization of Securities Commissions in Cape Town on April 20.

South Africa's Financial Services Board expects draft legislation for hedge funds to be adopted by the first half of 2010, the regulator said in November. Hedge funds are not governed by the same rules as mutual funds, although hedge fund managers are subject to the regulator's supervision.

—Robert Brand

Japan to Extend Short-Sale Restrictions

Japan's financial regulator plans to continue restricting naked short selling and require investors to disclose short-sale positions, it said in a statement posted on its website.

An official extension until Oct. 31 will be announced by the end of this month, the agency said.

—Tomoko Yamazaki

FERC Sets $30 Mln Fine for Amaranth's Hunter

The Federal Energy Regulatory Commission issued a $30 million civil penalty against former **Amaranth Advisors LLC** energy trader **Brian Hunter**, who is accused of manipulating the natural-gas futures market in 2006.

The case was the first in which FERC went after a participant in the futures market for actions it said affected the price of delivered gas, which it oversees.

"This is a seminal case in FERC law," **Susan Court**, an attorney with **Hogan Lovells US LLP** and a former FERC enforcement director.

The fine "is a sufficient deterrent" to discourage traders from engaging in market manipulation, FERC Chairman **Jon Wellinghoff** told reporters at the agency's monthly meeting. Hunter has 30 days to pay or appeal.

Amaranth lost $6.6 billion betting on the price of natural gas. The Greenwich, Connecticut-based hedge fund that once controlled half of the natural-gas market, collapsed in 2006. In August 2009, the company agreed to pay $7.5 million to end U.S. cases brought by FERC and the Commodity Futures Trading Commission for trying to manipulate natural-gas prices. A FERC judge ruled in January 2010 that Hunter had manipulated gas markets.

—Brian Wingfield

Madoff Trustee Recovery Tally Tops $7.6 Bln

BY LINDA SANDLER

Irving Picard, the trustee liquidating **Bernard L. Madoff**'s defunct investment firm said he has recovered more than $7.6 billion for investors against fees of $175.5 million requested since Madoff's arrest.

Picard, who has filed more than 1,000 suits seeking money for the con man's investors, said in February he was halfway to recovering the $20 billion in principal lost when Madoff was arrested in 2008. In a court filing April 18, he put the recovery $2.4 billion lower, at about 44 percent of principal lost. Most of the difference is the amount of forfeited funds held by the U.S. Attorney, which has been disputed in court.

Picard gave the new numbers as part of a fee request to a bankruptcy judge, seeking approval for $43.2 million for four months' work by himself and his law firm, **Baker & Hostetler LLP**.

Picard's biggest recovery was a $7.2 billion settlement reached in December with the estate of **Jeffry Picower**, a Madoff investor who died in 2009. Of that amount, about $5 billion went to Picard, and $2.2 billion to the U.S., he said in the filing.

Recoveries could rise if Picard's suits against feeder funds succeed, he said in March.

Picard's law firm said it spent 7,086 hours on investigations at a cost of $3.1 million from Oct. 1 to Jan. 31. Administration consumed 7,033 hours, and cost $2.1 million. The trustee's case against **JPMorgan Chase & Co.** took 1,971 hours, while a case against the owners of the New York Mets required 1,660 hours and customer claims took 4,837 hours.

OVER THE HEDGE

Plans by **Glenview Capital Management** Chief Executive Officer **Larry Robbins** to build an ice hockey rink in Creskill, N.J., have met fierce local opposition, according to the Bergen County Record. The planned 16,000 foot structure is officially a residence with a one-bedroom basement apartment, which allows it to conform with local zoning laws. "Two neighbors have filed suit to stop the rink/residence, which is projected by the owner's attorney to cost as much as $10 million and will also include a locker room, spectator area and racquetball court," the paper reported. Robbins also received an anonymous letter threatening that things would "get ugly," the Record said, citing a copy of the letter obtained by hedge fund manager. Last year, after the borough approved the rink, Cresskill changed its zoning laws to require all single-family homes to devote at least 50 percent of their space to living, sleeping, eating, cooking, bathing, washing and sanitation, according to the newspaper.

The $30 million Museum of Mathematics in Manhattan, the brainchild of former **Renaissance Technologies** manager **Glen Whitney**, is one step closer to opening its doors, Crain's New York reported. The museum, which will be known as MoMath, signed a lease earlier this month for 19,000 square feet at 11 E. 26th St. It is scheduled to open in the fall of 2012 and will feature exhibits that "stimulate inquiry, spark curiosity, and reveal the wonders of mathematics," according to MoMath's Web site.

Arbitrage, a movie about a hedge-fund manager who tries to sell his company to an investment bank before his creative bookkeeping is exposed is shooting until May 21 in New York, according to Backstage magazine. The film stars Al Pacino, Susan Sarandon and Eva Green.

Jacobs Asset Management LLC Chief Operating Officer **Ryan Zacharia** will wed Michelle Rose next summer, according to a report in New Jersey's Independent Press.

Robert Hess, a chess grandmaster who interned at **Fortress Investment Group LLC** in 2008 and will attend Yale University in August, was due to compete in a playoff yesterday in the semi-finals of the U.S. Championship in St. Louis. Hess, 19, drew two semifinal games on April 23 and 24 against grandmaster Yuri Shulman, who won the tournament in 2008. The two were scheduled to play a best-of-two-games time- shortened match yesterday, with the winner advancing to play defending-champion Gata Kamsky in the finals. Hess was rated 11th out of the U.S. Championship's 16 players and went undefeated through the tournament's first phase, winning five games and drawing two others. He was the only player in his group without a loss after the first seven rounds, setting up his semifinal pairing with the 35-year-old Shulman. While at Fortress, Hess developed an interest in finance, which he intends to pursue in college.

—Eben Novy-Williams

When Hedge Fund Owners Invest in Sports Teams

BY KATHERINE BURTON

John W. Henry, founder of futures trader **John W. Henry & Co.**, became the principal owner of the Boston Red Sox in 2002. Two years later the team won its first World Series in 86 years. Three years after that it chalked up a second championship. While the Sox were winning, the firm's assets were dwindling, falling to $319 million as of April 15 from a peak of $3.4 billion in 2005.

James Pallotta, a Boston-based hedge fund manager who at his peak oversaw more than $11 billion, bought part of the Boston Celtics in December 2002. Six years later the basketball team won the NBA championship. In June 2009, following two years of losses, he closed his **Raptor Global** hedge funds.

The trend hasn't gone unnoticed by hedge fund investors. "Owning a team can be a function of ego, it is very high-profile, and it could prove to be a distraction," says **Brad R. Balter**, head of Boston-based **Balter Capital Management**. "As an investor, I have to consider that." Words to bear in mind for **Steven A. Cohen**, the billionaire hedge fund manager who is bidding for a minority stake in the New York Mets.

For a billionaire fund manager, buying a stake in a sports team might be about "fulfilling a childhood fantasy, showing the world you've made it, or buying out of boredom," says Brad Klontz, a financial psychologist and associate research professor in personal financial planning at Kansas State University in Manhattan, Kan.

In October, Henry, 61, added Liverpool FC, the English soccer club, to a sports portfolio that also once included the Florida Marlins baseball team. Henry's funds buy and sell based on computer models that haven't changed dramatically since Henry designed them in the 1970s. That means Henry doesn't need to spend his days glued to trading screens, says **Kenneth Webster**, the firm's president. Webster says returns have picked up since 2007, after two years of underperformance.

Pallotta, 53, has also added to his sports holdings, joining a group that bought AS Roma, an Italian soccer club, last week. Pallotta, who started Raptor Global in October 1993, had returned about 19 percent on average annually until 2007. That year his funds tumbled 8.5 percent, followed by a 20 percent drop in 2008. He's now running a new stock fund, Raptor Evolution. "Every investment helps me in what we are doing—our network is our business," says Pallotta, who adds that his investments in the teams are passive. His minority stake in the Celtics involves going to two board meetings a year—after market hours. "It's not a lack of focus," he says. "It's absolutely the opposite."

For **Philip Falcone**, 48, head of New York-based **Harbinger Capital Partners**, his interest in owning a team predates his hedge fund career. He played professional hockey in Malmö, Sweden, for a year, until a leg injury sent him to Wall Street. He became a billionaire after making a profitable bet on the collapse of the subprime loan market in 2007 and started spending his money immediately.

By February 2008, Falcone had bought Penthouse publisher Bob Guccione's 27-room townhouse on Manhattan's Upper East Side for $49 million. He became a noncontrolling partner of the National Hockey League's Minnesota Wild in April of that year. His fund assets

continued next page

Hedge Funds Added to Bloomberg This Week

The following hedge funds were added to Bloomberg's database this week. Access the Hedge Fund Database Portal by typing HFND <GO> on your Bloomberg Terminal. To view U.S. hedge fund managers, users must fill out an Accredited Investor Form (Option 13).

TICKER	BLOOMBERG ID	FUND MANAGER	MANAGEMENT COMPANY	STRATEGY	MANAGER LOCATION	INCEPTION DATE	PRIME BROKER
MINCAPA KY	BBG001MKSQP3	STEVE BRANN	Apollo Multi Asset Management	Multi-Strategy	U.K.	5/1/2011	
ARCJLJC LX	BBG001MKT2R3	TEAM MANAGED	Arcus Investment Ltd	Long Bias Eq	U.K.	4/5/2011	
ATFONFE LX	BBG001MNTK33	A. CASARES	Atum Investments Ltd	CTA/Mgd Futures	Luxembourg	3/31/2011	
FSSRFND KY	BBG001MHTFG3	FRANK L MERSCH	Front Street Investment Mgmt	Eq Fdmntl Mkt Neut	Canada	7/31/2008	
IKOHEUE KY	BBG001MMZK29	TEAM MANAGED	IKOS Asset Management Ltd	Long/Short Eq	U.K.	7/1/2003	
INFCLEV VI	BBG001MFVTS1	DAVID BROWN	Infinity Capital Management Ltd	Multi-Strategy	U.K.	3/2/2011	
INSAFAU KY	BBG001MNLCB0	JAMES L ALLSOPP	Insparo Asset Management Ltd	Multi-Strategy	U.K.	2/1/2010	
JASMCLP US	BBG001NB2807	KEVIN R GREENE	James Alpha Management I LP	Long/Short Eq	U.S.	4/1/2009	Jefferies & Co
JPMEDAW LX	BBG001MK91F0	JONATHAN INGRAM	JPMorgan Asset Management Inc	Long/Short Eq	U.K.	4/1/2011	
KLEUAWS GU	BBG001MCKDZ7	SCOTT GRAY	Kleinwort Benson CI Fund Srvcs	Global Macro	Jersey	1/1/2011	
MANMUSD LX	BBG001MKQL49	SANDRO KRATTLI	Man Investments Luxembourg SA	CTA/Mgd Futures	Luxembourg	4/19/2011	Man Investments AG
MANMCBS MV	BBG001MKQYC2	LEON DIAMOND	Mansard Capital LLP/U.K.	Global Macro	U.K.	9/27/2010	Goldman Sachs
OPEQOVA US	BBG001MKSML6	PETER ZUCK	Osiris Partners LLC	Long/Short Eq	U.S.	9/1/2010	Goldman Sachs
MACFNDA VI	BBG001MHV901	IVO BARTOLETTI	Renalco SA	Multi-Strategy	Switzerland	5/1/2011	
SWENTFE ID	BBG001NB1CV5	RUPERT FLEMING	Smith & Williamson Investment	Long/Short Eq	U.K.	3/21/2011	Credit Suisse AG
STAGINU KY	BBG001MPPTC3	TORU HASHIZUME	Stats Investment Management	Long/Short Eq	Singapore	9/1/2008	
TICKDTB VI	BBG001MNSTC5	TEAM MANAGED	tickwise-trading GmbH	Long/Short Eq	Switzerland	5/1/2011	Rabobank International/London
DRVEGAS SP	BBG001MMLXJ8	CYRIL MARINI	Wedge Associates SA	Multi-Strategy	Switzerland	4/15/2011	
DREQTYE SP	BBG001MMGF49	CYRIL MARINI	Wedge Associates SA	Long/Short Eq	Switzerland	3/8/2010	
DRVEGAU SP	BBG001MMLZ12	CYRIL MARINI	Wedge Associates SA	Multi-Strategy	Switzerland	4/15/2011	

WHEN HEDGE FUND OWNERS…

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peaked two months later at $26 billion. He now manages about $7 billion. Falcone also declined to comment.

Not all managers have seen their performance suffer after investing in sports. **David Tepper**, 53, who runs the $16 billion **Appaloosa Management** in Short Hills, N.J., bought a 5 percent stake in the Pittsburgh Steelers in September 2009. That year his main fund climbed 130 percent. His fund returned about 30 percent last year and is up 10 percent so far this year.

Calendar

To submit an event email hedgebrief@bloomberg.net

DATE	EVENT	FEATURING	LOCATION	CONTACT / REGISTRATION
April 27	Direct Access Partner's Capital Introduction Program	One-on-one roundtable session for 12 investors.	Union League Club, New York	http://www.daptrading.com
April 27	Make A Difference Wisconsin Investment Conference	Keynote speaker William Ackman, Pershing Square Capital.	Pfister Hotel, Milwaukee	makeadifferencewisconsin.org
April 28	Bloomberg's Portfolio Strategies: Precious Metals	Michael Cuggino, Permanent Portfolio Family of Funds; Jennifer Fan, Arrowhawk Capital; John Hathaway, Tocqueville Asset Management.	Crosby Street Hotel, New York	Jason Earnhart, +1 646-834-5024, jearnhart@bloomberg.net, bloomberglink.com
April 28, 3:30pm	Pillsbury's Changing Considerations for a Successful Hedge Fund Launch in 2011	Rob Davis, Concept Capital; Bob Donahoe, Goldman Sachs.	Pillsbury's San Francisco office	Kristen Gorts, kristen.gorts@pillsburylaw.com
May 1	Milken Institute Global Conference	James Chanos, Kynikos Associates; Nick Calamos; Joseph Dear, CalPERS.	The Beverly Hilton, Los Angeles	milkeninstitute.org
May 1-3	Institutional Investor Alphahedge Global Hedge Fund Summit	Lawrence Summers, former director of the White House National Economic Council.	The Fairmount Southampton, Bermuda	marhedge.com
May 2-4	Soyatech's Global AgInvesting 2011	Angus Selby, Altima Partners; Matthew Powell, Ospraie Management; Mary Law, Wake Forest University.	The Waldorf Astoria, New York	events.soyatech.com
May 3-4	6th Annual Value Investing Congress West	Jeffrey Ubben, ValueAct Capital; Michael Kao, Akanthos Capital; Whitney Tilson, T2 Partners.	Pasadena, Calif.	valueinvestingcongress.com/hedgebrief
May 3, 4pm	Bloomberg's Due Diligence in the post-Madoff Era	Fabio Savoldelli, Optima Fund Management; Simon Fludgate, Aksia.	Bloomberg headquarters, New York	Constantin Cosereanu, +1-212-617-2231, ccosereanu@bloomberg.net
May 4, 6pm	The Rise & Fall of Bernie Madoff	Erin Arvedlund, author, "Too Good to be True: The Rise and Fall of Bernie Madoff."	Drexel University, Philadelphia	lebrow.drexel.edu
May 4-5	EuroHedge Summit 2011	"A major hedge fund event which attracts the industry's elite from around the globe."	Palais de la Bourse, Paris	hedgefundintelligence.com
May 9, 4:30pm	Bloomberg & Toronto 100 Women in Hedge Funds' Global Outlook & Trends	Panelists Camilla Sutton, Mark Grammar, Courtenay Wolfe.	St. Andrew's Club, Toronto	Emily Starkey, estarkey1@bloomberg.net
May 9, 6pm	Robin Hood Foundation gala	Performance by Lady Gaga, hosted by NBC's Brian Williams.	Jacob K. Javits Convention Center, New York	debbief@eventassociates-inc.com; +1 212-245-6570 x20
May 10	Bloomberg's Canada Economic Summit	James Leech, Ontario Teachers' Pension Plan; Eric Bushell, CI Investments.	The Carlu, Toronto	Jason Earnhart, +1 646-834-5024, jearnhart@bloomberg.net, bloomberglink.com
May 10	NYSSA's 3rd Annual Family Office Conference	Keynote speeches by Jamie McLaughlin and Steve Braverman, Pathstone Family Office	NYSSA Conference Center, New York	nyssa.org
May 10. 2pm	Aite Group Roundtable's Trading 2011: Life in the Fast Lane, Changing Gears	Keynote speaker Donald Wilson, DRW Trading Group.	Fairmont Chicago Millenium Park	aitegroup.com
May 10, 5pm	Bloomberg CMBS/CRE Seminar	Panelists include Lisa Pendergast; Jefferies, Wayne Fitzgerald, Blackrock; Julie Han, TIAA CREF.	Bloomberg headquarters, New York	naseminar@bloomberg.com
May 11, 5pm	100 Women in Hedge Funds' Global Outlook & Trends	Panelists Manoj Narang, Tradeworx; Duncan Niederauer, New York Stock Exchange.	Bloomberg headquarters, New York	Elizabeth Levine, +1 212-617-5576, elevine8@bloomberg.net.
May 11	CFA Institute 64th Annual Conference: Invest in the Future	Jim Rogers; Theo Phanos, Trafalgar Asset Managers; Axel Merk.	Edinburgh, Scotland, International Conference Centre	annual.cfaconference.org
May 11-13	Third annual SkyBridge Alternatives (SALT) Conference	Speakers include Steven A Cohen, Israel Englander, Ken Griffin, Daniel Loeb, James Dinan, John Burbank III.	Bellagio, Las Vegas	www.saltconference.com
May 12, 5pm	Credit Suisse New York Trading Forum	Speaker Dan Mathisson, global head of AES.	Bloomberg headquarters, New York	Casey Dunn, +1 212-325-1363, casey.dunn@credit-suisse.com
May 14	100 Women in Hedge Funds' The MoonWalk London 2011	Walk 26.2 miles in support of U.K. breast cancer charities.	London	www.walkthewalk.org
May 17	AIM Buy-Side User Forum 2011	Overview of the year's innovations, next year's planned devlopments; round table discussions.	Bloomberg headquarters, New York	bloomberg.com/promo
May 19	9th Annual Hedge Funds Care Midwest	Open your heart to the children benefit.	JW Marriott Chicago	Dan Butschko at Dbutchko@hedgefundscare.org; hedgefundscare.org

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Calendar

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DATE	EVENT	FEATURING	LOCATION	CONTACT / REGISTRATION
May 20	Eurekahedge Asian Hedge Fund Awards 2011	Black-tie gala dinner.	Fairmont Hotel, Singapore	awards@eurekahedge.com, +65 6212 0925, eurekahedge.com
May 23-25	High-Frequency Trading Leaders Forum 2011, "How Speed Traders Leverage Cutting-Edge Strategies in the Post-Flash Crash World"	Andrew Kumiega, Infinium Capital Management; John Netto, M3 Capital; Richard Flom, Systematic Alpha Management; Petter Kolm, NYU.	Flatotel, New York	hftleadersforum.com
May 23-24	5th Annual Hedge Fund Investment Conference Japan	Keynote speakers Shuhei Abe, SPARX Group; Shinya Fujiawara, Tower Investment Management; John Roswell, Man Investments.	Tokyo. Venue to be determined.	hedgefundinvestmentsjapan.com
May 24	Argyle Executive Forum's 2011 Endowment & Foundation Spotlight: Investing in Hedge Funds	Benjamin Appen, Magnitude Capital; David Ben-Ur, Corbin Capital; Philippe Gougenheim, Unigestion; Jonathan Shear, University of Utah CIO.	New York. Exact location provided to attendees.	www.argyleforum.com
May 24	46th Edition Roundtable Forum	Closed door sessions each with five managers and one investor.	The Pierre Hotel, New York	roundtableforum.com; manager applications due April 29
May 25-26	Alternative Investments Asia 2011	Joseph Pacini, JP Morgan; Patrick Alexander, Batavia Investment Management; Mock Pack-Kay, Saratoga Capital.	Carlton Hotel, Singapore	alternativeinvestmentsasia.com
May 26	Securities Financing Forum, New York	Alexander Lange, ABN Amro Securities; John Arnone, Deutsche Bank Securities.	Four Seasons Hotel, New York	dataexplorers.com/newyork
June 2	GARP's 3rd Annual European Risk Conference	Panel topics include Basel III, Solvency II, Dodd-Frank, opportunities in BRIC countries.	Mint Hotel Tower of London	garp.org
June 5-7	Marcus Evans' Private Wealth Management Summit Spring 2011	"Will highlight the current challenges and opportunities…"	The Westin Diplomat Resort & Spa, Hollywood, Fla.	privatewealthsummit.com

SPOTLIGHT

John Fath, senior portfolio manager of U.S. rates for BTG Pactual's Global Emerging Markets and Macro Fund, spoke with Bloomberg's Kelly Bit about interest rates, inflation and why Canadian bonds might be a better option than U.S. Treasuries.

Q: When might U.S. interest rates change?

A: It's hard to see the Fed moving before the end of the year. People who really count, **Janet Yellen**, **Bill Dudley**, **Ben Bernanke**, still favor interest rates at current levels. Where the environment's changed a bit over the last month and a half is there's much more noise with inflation and potential growth. Inflation is trending upwards. We just don't know at what rate.

Q: Is now the time to position yourself for a change in rates?

A: If you've looked in the past to pre-tightening cycles, the curve begins to omit or prepare itself for the Fed to move the other way many months before they actually go. If you're trading that market, you have to take the leap of faith. It may be a bit premature; there's still a lot of noise in the system that is loud and not necessarily all in one direction. That's why the ECB moved once in '08 and figured out it was premature and they had to reverse. We're almost in that position right now. Banks obviously are in better shape, the economy is in much better shape, but there's still a lot of headwind. Clearly, Japan's going to have issues. Most people would believe the issues in Europe have not been resolved. You could easily have a hiccup in the BRICs, which have been huge drivers of growth. China's been a main driver of the world's recovery. If they move too quickly to restrict monetary policy and their economy really slows down, it will be a drag on the worldwide economy.

Q: What other Fed actions will you monitor?

A: It can become a political hot potato to own private-label mortgages for a long period of time. They have to figure out a way of getting out of those but not disrupting the mortgage market.

Q: What is the state of the U.S. economic recovery?

A: The global economy seems to be humming along at a fairly decent pace. The issue at hand obviously is oil. If oil continues to increase, how much of that will take away from consumer spending? The other issue is the cutbacks associated with state and local and federal spending, and how much that will take away from GDP. Something that could negate that is corporations -- the amount of cash and profitability.

Q: What other themes are you following?

A: The issue will be what investors are going to accept as a reasonable rate of return for 30-year U.S. debt. Most investors are global. When they look at U.S. Treasury debt, they're comparing it to Brazilian debt or Canadian debt or German bunds. The issue is who offers a more competitive rate of return?

Q: Where do you see investors going?

A: People might lower their allocation to U.S. treasuries much more quickly and buy Canadian debt -- they think the value is better. It might be that in the tightening cycle the Canadian central bank is far along in the process and they don't have to move anymore. There's going to be more of that dynamic flow of funds back and forth than there has been.

Q: Are there any other safe alternatives you might recommend?

A: Brazil has been extremely attractive because their currency has rallied and their real interest rates are some of the highest in the world. People look at almost 6 percent real interest rates. You have to believe their central bank, if you buy their bonds, is going to do the right thing and tighten enough to control inflation. Countries like Canada, for example, or even Chile, who are enjoying surpluses. Stable governments; bonds look reasonable. You might even look at Germany because finances tend to look better than some of the other European counterparties. They're further along in the tightening cycle than at least the U.S.

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