
Rising oil prices, vanishing stimulus worry hedge fund managers

By Editor Test *Wed, Mar 9, 2011*

The level of the S&P 500 and the size of the Fed's balance sheet have a plus-88.4% correlation since QE1 started in March 2009, said TrimTabs.

Hedge fund managers turned more bearish on the S&P500 in February. Only 26% said they were bullish, down from 37% in January, while the bearish segment rose to 40% from 26%, according to the *TrimTabs/BarclayHedge Survey*.

“Bullish sentiment less bearish sentiment is negative for the first time since November,” said Sol Waksman, founder and president of BarclayHedge. “Increased caution might owe in part to excellent recent performance. Our Hedge Fund Index has posted a positive return for six straight months.”

About 37% of hedge fund managers are bearish on the 10-year Treasury note; only 15% are bullish. On the U.S. dollar index, bears and bulls are balanced at 31%.

Nonetheless, 18% of managers aim to lever up in the near term, while only 15% plan to lever down.

“Managers still have a large incentive to gamble with borrowed money because short rates round to nil. If one of the Fed’s goals was to ignite speculation and greed then it has succeeded famously,” said Vincent Deluard, executive vice president at TrimTabs.

The equity rally owes a lot to QE2, about 52% of hedge fund managers believe; 35% say the end of quantitative easing in June will hurt the rally. The level of the S&P 500 and the size of the Fed’s balance sheet have exhibited a positive correlation of 88.4% since the start of QE1 in March 2009, according to TrimTabs.

Managers also fret about oil prices. About 24% believe oil is likelier to hit \$150 per barrel than the S&P 500 is to reach 1,600.

Deluard disagrees. “We’ll take the other side of that action,” he said. “Oil spiking to \$150 from here represents a move of nearly seven standard deviations, while the S&P 500 climbing to 1,600 represents a move of less than three standard deviations. [Those] who agree with us might consider selling long-dated out-of-the-money call options on oil futures.”

The *TrimTabs/BarclayHedge* database tracks hedge fund flows monthly. The Survey of Hedge Fund Managers appears monthly in the *TrimTabs/BarclayHedge Hedge Fund Flow Report*, which records hedge fund flows, assets, and returns alongside topical studies. For more, click [here](#).