Recent Articles

Tiger: Oh Right, Sethâ€¦Yeah, Yeah, I Knew Seth
Hedge Put into Receivership Over $1.83M Debt
TCI Head Makes Run at RR Board
Bear Takes First Loss as Hedge Woes Linger
RAB Capital Exec Goes to RIM
Amaranth Trader to FERC: You Donâ€™t Know What Youâ€™re Doing
Activist Peltz Demands Candy Fix
Hedge Fund Mobster Scammed $20M
Cambridge Subprime Fund Keeps Dropping
Bear Mgr Cioffi Gone
Harbinger Goes After Media Co
RAB Promotes Asian Expert

Fed Quarter Cut Disappoints Markets
by Paula Schaap, Reporter , December 11, 2007

[Goldman Hedge Could Raise $10B]
[Top SAC Trader Leaving]
[Eton Park Buys Up Goodyear]

Hedge fund firms waiting for news of a rate cut from the U.S. Federal Reserve got some of what they wanted when the central bank lowered the federal funds rate 25 points to 4.25%.

The big question was whether it would be enough to rescue those funds that had a hard month in November when equities markets dropped in the face of increasing strains from subprime mortgage defaults and the consequent credit crunch.

â€œIncoming information suggests that economic growth is slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending,â€• the Fed said in a statement.

November was a tough month for hedge fund firms, the second worst since August. The Hedge Fund Aggregate Average was down .89%, as compared to Augustâ€™s drop of 1.56%.

The worst off were those firms whose strategies were tied into the November drop in the markets.

Some analysts had speculated that the Fed would go down a full 50 basis points in the face of severe financial turmoil.

Indeed, investors seemed to say that 50 would have the preferred antidote to their woes, as the market took a sharp dip after the 2:15 p.m. announcement. Right before the Fed announcement, the Dow Jones Industrial Average was up 40 points; within the half hour, it had fallen more than 200 points. The S&P 500 dipped about 25 points while the NASDAQ Composite dropped to 45 points.

Steven Sheldon, director of Houston-based SMS Capital Management, said that he expected a post-Fed cut selloff.

â€œI donâ€™t think it will be severe,â€• Sheldon said, â€œbut I think there will be some interest in taking some money off the table.â€•

J. Scott Sykora, president of LJM Partners agreed with that assessment.

â€œIâ€™m not expecting anything dramatic; no more than a slight selloff or a slight rally.â€•

The Fed held out hope that another rate cut could be in store if this one did not restore market stability.

In a related action, the Fed also approved a 25 basis point cut for the discount rate, or the rate banks use to loan money to each other, to 4.75%. The move was seen as the Fedâ€™s way of loosening up credit for investment banks that have been forced to write-off tens of billions of dollars for securities linked to subprime mortgage assets.