

THE WALL STREET JOURNAL.[Browse Entire Paper](#)[Return to Front Pages](#)**Heard on the Street****In 7 Days, a Hedge Fund Lost All Value**

By Henny Sender in New York and Jason Singer in Tokyo

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EVEN BY **HEDGE - FUND** standards, this was a spectacularly rapid demise.

A \$300 million **hedge fund** in Japan is being wound down after losing virtually all its capital in just seven trading days in early January -- the latest illustration of the perils of such secretive and increasingly popular investment partnerships.

Eifuku Master Fund, run by a former Lehman Brothers Tokyo-based trader, took huge bets with borrowed money on a limited number of trades that went wrong. Investors in the fund, now facing a loss of their money, may include many wealthy individuals in the U.S., according to **hedge - fund** managers in both Tokyo and New York.

"Substantial trading losses have consumed nearly all the fund's capital," John Koonmen, the manager, wrote in a letter to investors, dated Jan. 15. The letter details a nerve-racking, rapid downward spiral for the fund, whose Japanese name can be translated as "good fortune" or "prosperity."

The swift reversal in the fund, which was up 76% in 2002, shows just how volatile hedge funds can be. Hedge funds -- lightly regulated and generally available only to institutions and the wealthy -- sometimes need to take uncommon risks as they try to make money in sluggish markets. Currently, there is heightened scrutiny of the activities of these funds, which manage \$600 billion.

What is unusual about Eifuku is the speed of the fund's demise, which was accentuated by the heavy use of leverage, or borrowed funds. Securities-brokerage-firm executives in Tokyo say Mr. Koonmen was the biggest producer of trading commissions in Japan, as he used borrowed money to wager far beyond the \$300 million in his fund. While the fund's actual capital was down to almost nothing as of the Jan. 15 letter, Eifuku still had long positions valued at \$80 million and short positions at \$117 million, according to the letter. At the beginning of this week, rumors of the fund's demise preyed on market sentiment in Japan.

People familiar with the situation suggest that Mr. Koonmen borrowed funds from three securities brokerages that multiplied the equity capital by a factor of at least three. None of the brokers, including units of Goldman Sachs Group Inc., Credit Suisse Group and Deutsche Bank AG, expect any losses, however, as all the money lent was backed by collateral from Eifuku, and when the positions started going wrong they demanded and got their money back, according to people familiar with the matter. Mr. Koonmen declines to comment.

Even in the mercurial world of hedge funds, Eifuku's turnaround was startlingly swift. Established just three years ago, it became a quick success. It rose 18% in 2001, and then rocketed 76% in 2002, according to people familiar with the fund. Mr. Koonmen became a well-known fixture at the watering-holes where Tokyo's financial crowd hangs out. He made millions of dollars from rapid-fire trading of stocks, bought a metallic-gray Aston Martin Vantage sports car, lived near the top of a luxury tower in a posh Tokyo district, and owned a plush home in Hawaii.

Despite his busy social calendar, Mr. Koonmen was an intensely active -- and secretive -- trader. He spread his transactions out to virtually all the big brokerage firms in Tokyo, so no one firm would know the extent of his bets. Mr. Koonmen hired a team of computer programmers from Romania to develop an expensive proprietary trading system, a rare and costly move for a **hedge fund**.

In early January, Eifuku made massive wagers on three trades, according to the letter to investors. The largest of those trades, involving a total of \$1 billion, included a bearish position in NTT DoCoMo Inc., Japan's biggest cellular-telephone provider, and a long position in its parent company, Nippon Telegraph & Telephone Corp, according to people familiar with the trades. (Short sales involve the use of borrowed shares on a bet that they can be bought back later at lower prices.)

In addition, Mr. Koonmen bet \$150 million buying a "significant position in a Japanese tech stock [where] we detected a large degree of panic selling and aggressive and large short sales of the stock." The letter doesn't name the stock, but people familiar with the trades say it is Sega Corp., a maker of videogames.

Mr. Koonmen's third trade involved both long positions and short positions in Japanese bank shares.

According to the letter, "things got off to a bad start immediately in 2003." In the first two trading days of the year, Jan. 6 and Jan. 7, the fund lost about 15% of its capital, the letter states. "This was very concerning to us as it immediately put us in a precarious" situation with its lenders, "and forced us to consider unwinding positions."

The incident underscores just how thinly traded even the largest shares in the Tokyo stock market can be, making large, leveraged bets particularly treacherous. While the telecom trade Mr. Koonmen made would have been profitable for much of 2002, if a trader put one dollar on NTT itself at the end of November and another dollar on a short position in DoCoMo, by mid-January, the loss would have been 15% as the market became more optimistic about DoCoMo's prospects, amid talk of share buybacks, market participants say. That in itself shouldn't have been a lethal blow, but the size of the bet and the leverage compounded the loss.

The thinly traded Sega shares, meanwhile, were taking a pounding for reasons that aren't entirely certain.

Trading results on Wednesday Jan. 8, "came as a real shock," the letter continues. While the fund tried to raise cash from some of its positions, it "sustained a loss of an additional 15% of its capital," with "large adverse moves in the last hour of trading." This loss created a margin call at the fund's main broker, identified by people close to the matter as Goldman, that "it could not meet."

The fund talked with the main broker "throughout the day and they agreed to a day's grace period," the letter says.

"Unfortunately," the letter adds, Jan. 9 "was as bad as Wednesday and the fund lost another 16% of its capital." After the close of trading, the broker exercised its right "to supervise further trading/liquidation in the positions."

The liquidation activity on Jan. 10 "had the effect of further losses in the fund's positions." The fund ended the day down a further 12% -- a loss for the week of about 58% of its capital, the letter says.

Over the long weekend -- Monday Jan. 13, was a trading holiday in Japan -- the fund had "numerous discussions" with the prime broker, and the decision was made to liquidate the fund's two largest positions as soon as possible. The broker arranged several large block trades with its customers around the world on Jan. 14. The trades "came at a dear cost and left the fund with a

loss for the day of approximately 40%," the letter says.

Still, dealers point out that despite increasing edginess in global stock markets, Eifuku's demise doesn't give rise to any stress in the financial system itself. That alone marks an important contrast to the situation in the fall of 1998 when losses at **hedge fund** Long-Term Capital Management posed a threat of significant losses for others, prompting the Federal Reserve Bank of New York to organize a bailout of the highly leveraged fund.

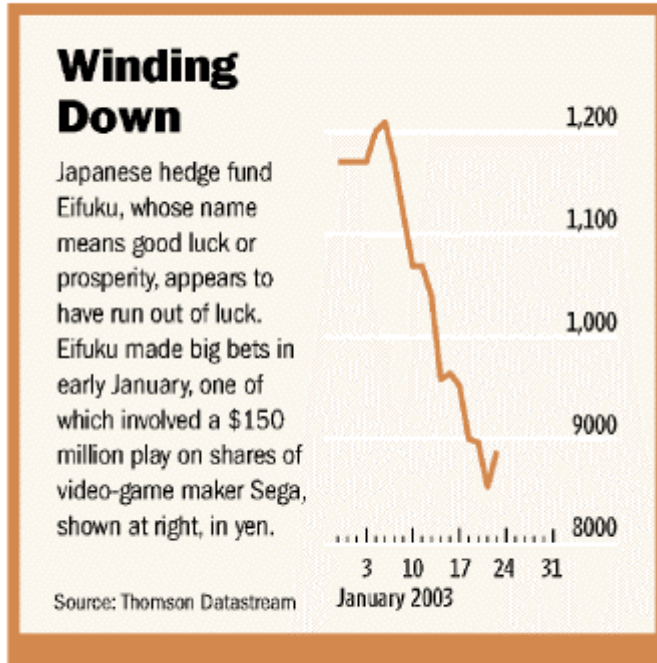
SELL, SELL, SELL: The volume of sell ratings on stocks has reached its highest point since the late 1980s. Wall Street currently rates 10% of stocks a sell, 46% a buy, and 44% a hold, according to Zacks Investment Research in Chicago. That is the highest level since the number of sell recommendations rose after the 1987 stock-market crash.

The current market downturn, combined with new regulations that require investment banks to detail the percentage of buys, sells and holds their analysts assign to stocks, has fueled the more-negative outlook. The regulations went into place in September, and the percentage of sell ratings rose within a week to 7.3% from 4.7%, according to

Thomson First Call, which tracks analyst ratings. Throughout the late 1990s, less than 1% of stocks were rated sell.

The level of sells varies widely from firm to firm. Prudential Securities Inc., which has highlighted its lack of an investment-banking presence, rates 3% of its stocks sell, 58% hold and 39% buy, according to the most-recent data available. Big investment-banking firm Salomon Smith Barney, a key target in New York State Attorney General Eliot Spitzer's probe of research conflicts of interest, rates 26% of the stocks it covers sell, 42% hold and 33% buy.

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