Fund Report: Despite his losses, Barton Biggs is still bearish on oil

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Hedge funds started a year ago by a leading investment strategist, Barton Biggs, have been stung by losses this year, partly because of a bearish bet on the price of oil at a time when the commodity's prices are setting records.

Biggs, for nearly three decades a strategist at Morgan Stanley, set up his investment firm, Traxis Partners, in June 2003 with two other longtime Morgan employees. He now manages around $2 billion in assets.

Biggs, 71, was part of an exodus of scores of prominent Wall Street executives over the last few years who started hedge funds - portfolios managed on behalf of wealthy investors and institutions like pension funds.

Biggs's funds were down more than 7 percent this year through July, net of fees, according to a letter to Traxis investors. A majority of the losses came in July, as the price of oil soared.

On Thursday, crude oil for September delivery settled at a record $48.70 a barrel on the New York Mercantile Exchange. Futures prices have climbed more than $10 a barrel since the end of June.

In his letter to investors, Biggs said he thought the price of oil should be closer to $30 to $34 a barrel. So convinced is Biggs of his investment thesis that he increased the size of his bet in July, even as prices were rising. "When the price of an investment goes against us, unless the fundamentals have changed, our inclination is to buy more," he said in the letter.

Biggs said he considered oil overpriced because supplies were surging even as he anticipated a slowdown in the global economy. He also cited a "terrorism premium of at least $12 a barrel in the current price."

Biggs did not return calls placed to his office on Thursday. His funds rose 16 percent last year, according to the letter.

His bearish bet on oil is the latest in a string of contrarian risks Biggs has taken. He had a negative view on stock prices, for example, during much of the bull market of the 1990s, although he turned bullish in late 2002 just before the market hit its lows.

"In our previous lives, we have been through investment cold spells similar to this one," Biggs said. "Often the pain becomes most intense just before the turn."

Still, not all of Biggs's prior bets fared well. Before he joined Morgan Stanley in 1973, Biggs helped run a hedge fund called Fairfield Partners, set up during the last big boom for hedge funds.

Fairfield lost money in the early 1970s by shorting some high-flying growth stocks. The stocks eventually dropped, but the bet was too early.

Biggs's decision to re-enter the hedge fund business last year was certainly not against the grain. The number of hedge fund managers has increased tenfold since 1990, to an estimated 3,000 firms, according to Hedge Fund Research, a database.

"The hedge fund mania that now grips the U.S. and Europe is rapidly assuming all the classic characteristics of a bubble," Biggs wrote to Morgan Stanley clients in 2001.

In an interview late last month, Biggs cheerfully conceded that he had entered a crowded and competitive business but said he still relished the challenge of beating the market.

"The beach holds no attraction for me and my dermatologist," Biggs said in an interview with a publication for clients of Weeden Co., a brokerage firm.

"I am definitely not interested in golf, and I have climbed all the easy mountains in the world." Investing, he said, "is the only game where age doesn't really hurt you."

The fund, established by the world's third-largest oil exporter in 1996, was expected to rise to 1.02 trillion kroner, or $152.6 billion, by the end of the year from 845 billion kroner in 2003, the government said in May. Foss said in an interview in Oslo he may raise that forecast in his October budget.

"We expect the fund to grow, but we must keep in mind that oil and gas output are at peak levels, and it's uncertain how long we'll stay there," Foss said.

Norway has a population of 4.5 million and is one of three countries in Europe, along with Ireland and France, to set aside money to finance future pensions. The Irish and French funds combined have less than a quarter of the assets of the Petroleum Fund, which is more than half the size of Norway's economy and holds stakes in about 2,770 companies worldwide.

The fund is nearly as large as the California Public Employees' Retirement System, the top U.S. pension fund, with assets of $166 billion, and Stichting Pensioenfonds ABP of the Netherlands, Europe's largest, which has about $194 billion in assets.

The assets of the Petroleum Fund were valued at 942 billion kroner at the end of June, up 3 percent from March 31, according to the central bank's monthly balance sheet on its Web site. The fund is scheduled to publish its own figures for the second quarter on Monday at 10 a.m. in Oslo.

The Norwegian fund invests all its money abroad to avoid overheating the country's $240 billion economy. It invests about 40 percent in stocks and the rest in bonds.

The fund, which is overseen by managers including Deutsche Asset Management and Merrill Lynch Investment Managers, as well as by the central bank, grew 8.3 percent in the first quarter. The government added oil revenues of 22 billion kroner in the period.

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