

Actively Managed Bear Market ETF Set To Launch

Posted by Murray Coleman

Investors already have plenty of fund options when it comes to shorting stocks. Almost every popular index has an ETF tied to it providing inverse exposure in a simple, one-stop shopping format.

But tomorrow, the **Active Bear ETF** (HDGE) is set to launch. It'll be the first pure short-trading ETF on the market, according to distributor AdvisorShares Investments.

The company's Web site explains that the fund's team of managers will use a fundamental stock evaluation process to identify promising short positions. It says:

"In selecting short positions, the fund seeks to identify securities with low earnings quality or aggressive accounting which may be intended on the part of company management to mask operational deterioration and bolster the reported earnings per share over a short time period. In addition, the portfolio management team seeks to identify earnings driven events that may act as a catalyst to the price decline of a security, such as downwards earnings revisions or reduced forward guidance."

The ETF's portfolio will be run by Ranger Alternative Management. The Dallas-based firm will use two primary managers to guide HDGE's strategy:

John Del Vecchio, a forensic accountant by training who has a background running short strategies at RedHawk Advisors and founded Parabolix Research.

Brad Lamensdorf, who is also a portfolio manager at Precisian Partners and has a background in managing hedge funds.

Although the new ETF's timing might seem a little out-of-sync with markets right now, bringing an actively managed alternative to the ETF field makes a lot of sense. For conservative investors interested in using this as a hedge to reduce overall portfolio volatility, HDGE might be just the ticket.

At least initially, though, it figures to face competitive headwinds.

The **ProShares Short S&P 500** ([SH](#)) has \$1.5 billion in assets and Direxion has attracted more than \$6.5 billion in assets with a family of leveraged and inverse funds. Its **Direxion Daily Financials Bull 3x ETF** ([FAS](#)) had close to \$2 billion in assets heading into 2011.

from the official site

Why Invest in HDGE

As a Tool to Hedge Equity Exposure - HDGE can be used as part of a long/short strategy in which an investor may synthetically integrate by pairing HDGE with a long-index ETF (or an investor's portfolio of long positions), providing the investor with a "buy and hold" option to hedge their long domestic equity exposure.

For Diversified Portfolio Construction - The Portfolio Management Team's portfolio construction process emphasizes diversification across a number of industries and specific companies with a special focus on catalysts that drive lower stock returns. The portfolio will typically consist of between 20-50 equity short positions, with an average position size of between 2% and 7% of the portfolio exposure.

For a Fundamental Investment Process - The HDGE Portfolio Management Team utilizes accounting metrics across the income statement, cash flow statement and balance sheet to identify companies with low earnings quality or possible aggressive accounting practices. These factors may suggest operational deterioration in a company's business. Qualitative analysis is also considered. An assessment of the management team, accounting practices, corporate governance and the company's competitive advantage are analyzed before a company is included as part of the HDGE portfolio.

Key Attributes

Disciplined, Repeatable Investment Process - The forensic accounting based methodology the Portfolio Management Team utilizes is a disciplined, consistent investment approach to both security selection and risk management. Like an investigative auditor, a forensic accountant dissects a company's financial statements, crunching the numbers searching for evidence in the data that may suggest operational deterioration or manipulative sales and revenue recognition, rather than focusing on fad products or broken business models to identify domestic equity stocks that are expected to underperform.

Experience - The HDGE Portfolio Management Team has experience trading and managing short portfolios with the ability to tactically allocate to liquid, low short interest stocks of companies which may be masking operational deterioration.

Market Analysis - Top-down technical evaluation of broader market liquidity, sentiment and breadth is utilized to help identify short and intermediate term market trends, manage exposure and mitigate risk.

Specialized Strategy - Effectively shorting individual securities requires an approach

very different from a traditional long-only strategy. HDGE is a very specialized product managed by investment professionals with years of short selling experience as opposed to another fund that might not have the HDGE ETF Product Manager's shorting expertise.

About the Portfolio Managers

John Del Vecchio, CFA - Portfolio Manager/Principal Mr. Del Vecchio serves as a Portfolio Manager for Ranger Alternative Management, L.P. ("Ranger"). Mr. Del Vecchio managed short only portfolios for Ranger from October, 2007 through March, 2010. He also serves as principal and founder of Parabolix Research, LLC, a short-only research firm. From 2003-2007, Mr. Del Vecchio served as an Analyst with David W. Tice & Associates / Behind the Numbers, LLC selecting short sale opportunities utilizing forensic accounting research on behalf of institutional clients and the Prudent Bear Fund. In 2002, Mr. Del Vecchio served as a portfolio manager for RedHawk Advisors, LLC with responsibility for managing the short sale allocation of the fund. In 2001, Mr. Del Vecchio served as an Analyst for the Center for Financial Research and Analysis (CFRA) performing forensic accounting analysis for short sale opportunities. Mr. Del Vecchio earned a B.S. in Finance, Summa Cum Laude, from Bryant College, and was awarded Beta Gamma Sigma honors. Mr. Del Vecchio earned the right to use the Chartered Financial Analyst designation in September, 2001.

Brad H. Lamensdorf - Portfolio Manager/ Principal Mr. Lamensdorf serves as a Portfolio Manager for Ranger Alternative Management, L.P. ("Ranger") and provides trading and market strategy for Ranger's short only portfolio. Mr. Lamensdorf has served as a Trading and Market Strategist for Ranger since 2009. Mr. Lamensdorf also serves as a principal of Precisian GP, LLC and Portfolio Manager of Precisian Partners L.P., both positions of which he has held since November 2007. Prior to Precisian, Mr. Lamensdorf founded BHL Partners L.P. a commodity oriented hedge fund primarily focused on gold and gold equities. From 1998 through 2005, Mr. Lamensdorf served as principal and portfolio manager for Tarpon Capital Management, L.P., which managed long/short hedge funds. In 1997, he was a founder, partner and co-manager of KBH, L.L.P., an investment firm created to manage investment portfolios for the King-Hughes family. From 1992 through 1996, Mr. Lamensdorf worked on the equity trading desk for the Bass family in Fort Worth, Texas, where he co-managed an extensive equity portfolio with emphasis on short selling and derivatives strategies. He also provided market analysis for fund managers throughout the Bass network. Mr. Lamensdorf received a B.A. in psychology from the University of Texas at Austin in 1992.