Hedge funds

Hedge fund Gammon gains 600% with well-timed bets on volatility

New York-based firm outperforms massively during a year when returns were on average down 0.3%

Laurence Fletcher in London AN HOUR AGO

Hedge fund Gammon Capital has chalked up a 600 per cent gain so far this year, ranking it as one of the world's best performers, thanks to well-timed bets on volatility during the coronavirus-driven market ructions.

The New York-based firm, headed by Michael Mescher, a former Barclays trader, correctly wagered on soaring volatility in early March as risky assets slumped. The $25m-in-assets firm also took options positions that rose sharply as markets rebounded in the second half of the month.

The returns come in a mixed year for hedge funds, which on average are down 0.3 per cent this year to the end of July, according to data group HFR. Some volatility traders and macro funds have been able to ride wild swings to net some of their biggest returns in years. But others, such as some longer-term computer-driven funds, have been caught out by rising volatility.

Mr Mescher said his fund had bought cheap put options — which offer the right to sell at a certain price — during January and February when volatility was low.

But as markets seized up in early March when coronavirus spread around the globe, market volatility rose rapidly, pushing up the price of those options. Mr Mescher held on to his puts and also bought call options — the right to buy at a pre-determined price. The calls made money as markets rebounded in response to several dramatic rounds of stimulus from the US Federal Reserve, while he sold some of his puts at a profit in April and May.

"March was an exceptional environment; you don't get a tonne of those," said Mr Mescher, who began trading derivatives on the floor of the Chicago Board Options Exchange.

Among his positions now are longer-dated puts on the S&P 500 index, designed to offer protection during the US presidential election in November.

The Gammon Tailwind fund, which began trading at the start of last year, made the 601 per cent return to the end of June before fees, according to a letter to investors. After subtracting fees, the fund made between around 300 per cent and 480 per cent, depending on the share class.

Mr Mescher said he named the firm after teaching himself to play backgammon, wagering thousands of dollars in games against colleagues. A Gammon is a term describing a win so large that the opponent has to pay up double stakes.

However, he admitted he had not fully realised the connotations of the name — either the form of raw pork or, in the UK, a pejorative term to evoke angry middle-aged men.

"I'm sometimes described as running 'Cheap Ham Capital'," he said, adding that he has no plans to change the firm's name.

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