**Dear Investors, We're...**

**Hedge Funds Strain To Find Words to Say 'Sorry' for Your Losses**

**By** [**GREGORY ZUCKERMAN**](http://online.wsj.com/search/term.html?KEYWORDS=GREGORY+ZUCKERMAN&bylinesearch=true)

Running a hedge fund means never having to say you're sorry, at least not in so many words.

That isn't to say some hedge-fund managers don't have a lot to feel bad about. In the past few weeks, some of the biggest names in hedge-fund land -- [Goldman Sachs Group](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=gs), [GS +1.62%](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=GS?mod=inlineTicker) Highbridge Capital Management, AQR Capital Management, Renaissance Technologies -- have certain funds that lost as much as a third of investors' money as stock and credit markets seized up, and stocks moved in unexpected ways, in reaction to the spreading subprime-mortgage debacle.

None of these highly paid managers are prostrating themselves before their clients, begging forgiveness, however. Instead, in letters to clients, they point fingers at other hedge funds, once-in-a-lifetime events and their own [computer programs](http://online.wsj.com/article/SB118720257346298683.html).

Black Mesa Capital, a Santa Fe, N.M., hedge fund captured the "don't blame us" spirit with its letter last week, blaming "unprecedented market events," including "a very large or several very large trading entities, possibly very large [hedge funds](http://online.wsj.com/article/SB118720257346298683.html)...liquidating massive" portfolios. The managers, Dave DeMers and Jonathan Spring, said they are taking "unprecedented actions" to fix its problems, a response to the "unprecedented market events." [The fund](http://online.wsj.com/article/SB118720257346298683.html) lost about 10% in the first eight days of August. Black Mesa didn't respond to a request for comment

Highbridge, which saw its $1.7 billion statistical-arbitrage fund lose 18% in just the first eight days of the month, sent out a letter pointing to other hedge funds, who the firm said were making similar trades, rather than explaining Highbridge's own mistakes. "As you may be aware, many hedge funds and asset management firms utilizing similar strategies are experiencing unprecedented volatility," said the firm, which has $37 billion in total assets.

Goldman's letter portrayed the firm's money-losing hedge funds as innocent bystanders, caught up in a violent market.

"The quantitative funds run by Goldman Sachs Asset Management have not been spared in this difficult environment," said the Goldman letter, sent Aug. 13, explaining why its hedge funds lost between 17% and 34% in the first 10 days of the month. "Our response has been comprehensive and immediate." Goldman didn't respond to a request for comment.

A simple mea culpa would be more satisfying for many investors. "I would like to hear an 'I'm sorry,'" says Jane Buchan of Pacific Asset Management Co., an Irvine, Calif., firm that invests in hedge funds.

The recent pain has largely centered on quantitative hedge funds, which rely on computer models of the sort more often developed by math whizzes than English majors. So, some of the explanations are heavy on the jargon. "The culprit is not the Basic System but our predictive overlay," said Jim Simons, who runs Renaissance Technologies, one of the largest hedge funds, in an Aug. 9 letter telling investors that one of his funds had lost almost 9% in the first eight days of August. He's gained back a chunk of that in the past few days.

"When you've done your best, there isn't a great deal to apologize for, the event was a whirlwind that caught everyone by surprise. It certainly caught us by surprise," Mr. Simons said in an interview. "But not having anything to apologize for and not feeling bad are two different things -- certainly, I feel bad for anyone losing money." Certainly, he did not lose a lot of money, if any.

Lawyers say they advise hedge managers to detail losses quickly, but restrict their explanations to the facts. Owning up to mistakes or apologies could give an opening to investors to level lawsuits, they say.

"It's sort of like how doctors never say they're sorry," says David Moody, a partner at law firm Purrington Moody Weil. "It's an invitation for a lawsuit." Because people get mad that they do not see sympathy from CEOs.

One major hedge-fund manager admits to using the word "sorry" in his letter to investors, but striking it at the last moment, arguing that he had nothing to apologize for. Another executive argued that funds sending out letters were treating their investors better than other big losers who have left their investors in the dark.

"Don't sugarcoat it," says Jacqueline Whitmore, a Palm Beach, Fla., author who gives speeches about business etiquette. "There's a hesitation to want to say that you were wrong, but it can be worded in a way where you can tell the truth, but it doesn't sound like this is the end of the world."

Clifford Asness, a founding principal of AQR, a Greenwich, Conn., firm, was blunt about his failure. But he blamed others, too. "Our stock-selection investment process, a long-term winning strategy, has very recently been shockingly bad for us and for all of those pursuing similar strategies," wrote Mr. Asness, whose largest fund is now flat on the year. "The very success of the strategy over time has drawn too many investors. Now, we are witnessing some of them exit, and...it's painful."

But there are times when the losses are so bad that hedge-fund honchos feel the need to give a full mea culpa. When Sowood Capital, a Boston hedge fund, was losing big money in July, few of its investors realized how bad things were getting. Then they received a letter, on July 27, and another on July 30, describing how Sowood's two key funds had lost more than 50% in just a few weeks and were winding down.

"We are very sorry this has happened," Jeffrey Larson, Sowood's founder, wrote to his investors. "A loss of this magnitude in such a short period is as devastating to us as it is to you."