



BLOGS: Street Sweep Term Sheet | **TOPICS:** Venture Capital Private Equity Banking Economy

The Warren Buffett-hedge fund bet tightens

April 26, 2011 5:00 am

Berkshire Hathaway's chairman won the 2010 race for investment returns, but Protégé Partners retains the long-term lead.

By **Carol Loomis**, senior editor-at-large

FORTUNE -- We're three years into Warren Buffett's 10-year bet with the hedge fund community, and the race has narrowed. For the second year in a row, Buffett's horse in the contest -- an S&P 500 index fund -- did better than the average return booked by five funds of hedge funds picked by Protégé Partners LLC, a New York money-management firm.

The Protégé pack, though, built up a big lead in the first year of the bet, the financially torturous 2008, and is still ahead.



PHOTO: ANDREANNA LYNN SEYMORE
Protégé's Scott Bessent, Jeff Tarrant and Ted Seides

This contest, to look back briefly, began when Berkshire Hathaway (**BRKA**) chairman Buffett, no fan of the transaction and management fees that cut the returns of hedge fund investors, said publicly in 2006 that in a long-term bet he'd back an S&P index fund against hedge funds. Ted Seides, a Protégé partner, picked up the idea, and a bet was negotiated.

The Protégé camp may be out front, but that is not to say either side has done well: Neither is in the black for three years. In a sense, the only winners in this bet so far are the managers of the funds of funds, who've been paid fees even if their investors have lost money.

In the wicked **start-off year, 2008**, Vanguard's Admiral shares -- the index fund carrying Buffett's colors -- fell by a dismal 37%, and Protégé's picks had an average loss of "only" 24%.

In the **next year, 2009**, the S&P index gained 26.6% to the funds' 16%. And last year's results -- being announced here for the first time -- showed the S&P rising by 15% vs. the funds gaining, on average, 8.5%.

The three-year record, therefore, puts the Protégé funds of funds in the lead with a *loss* of 4.2%, against the S&P's even greater loss of 8.18%.

The year-by-year results display unsurprising patterns: Given the ability of hedge funds to sell short and invest in financial instruments other than stocks, they are the odds-on favorite in a bad year for the market -- a 2008, for example -- than the long-only S&P. Conversely, in a good year for the market, when many funds may continue to hedge with part of their assets, the S&P has the advantage.

RECENT POSTS

RECENT COMMENTS

- Washington's debt ceiling terrorists
- Venture capital meets The Jersey Shore?
- Follow Canada? Only at your own risk.
- Carlyle's Rubenstein: Why China 'really' loves private equity
- Exclusive: Facebook investor Meritech raises \$425 million



From the Crowd

Commentary and analysis from outside voices in venture capital, hedge funds and economics

- Venture capital meets The Jersey Shore?
- American standard: Wall Street piles on the debt
- Cash is king: 8 tips for optimizing your startup financing strategy
- What should you do with your crappy little services business?
- Investing in the music business, where 'you can't make money'

THE TERM SHEET

Receive Fortune's newsletter on all the deals that matter, from Wall Street to Sand Hill Road. Written by **Dan Primack** and emailed every day and as news happens.

[Sign up now!](#)

Contributors

Followers of this bet will remember that the names of the five funds of funds have never been disclosed -- though Protégé itself runs funds of funds and the biggest of these, called Protégé Partners LP, may be assumed to be among the five.

Another reminder: The stake is \$1 million -- so to speak, because there's a present-value factor built into the bet. At its start, each side put up \$320,000, with the total going to buy a zero-coupon bond that will be worth \$1 million when the 10-year competition is over. That money is to go to the charity that each side designated at the outset. (Buffett's charity is Girls Inc. of Omaha; Protégé's is Absolute Return for Kids).

The party holding the zero-coupon bond is the Long Now Foundation of San Francisco, whose wish to promote long-term thinking led it to set up a mechanism called Long Bets. On its site, www.longbets.org, you can read the predictions that various prognosticators have made about who will win the Buffett-Protégé contest.

There are no recent posts because Long Bets ran into a spam problem and for a time wouldn't accept comments. It will take them now, though -- so you're invited to weigh in.

The writer of this article is a longtime friend of Warren Buffett's and the editor of his chairman's letter in the Berkshire annual report.

More from Fortune:

- [Letters from Chairman Buffett \(Fortune, 1983\)](#)
- [Buffett buyout hits Goldman profit](#)
- [There oughta be a law, Sokol edition](#)

Tags: Berkshire Hathaway, hedge funds, Protege Partners, S&P 500, Ted Seides, Warren Buffett

1 Comments | [Add a Comment](#)

[Recommend](#)

32 people recommend this. Be the first of your friends.

15

38

[Email](#)

[Print](#)

[RSS](#)

Carol, this is very interesting. Thanks for the update. I'm curious if the hedge fund returns account for the management fees. It seems hedge funds generally charge 2% of assets and 20% of profits. Are those percentages factored into the results?

Posted By Wil: April 26, 2011 9:02 am

« [Schwarzman talks taxes: 'Everyone will be giving something up'](#) Pre-Marketing 4.26.11 »

Sponsored Links

HOTTEST OIL STOCK IN US!

Will the "new Bakken" oil find pump wealth into your portfolio? Only if you act now. www.AmericanEnergyReport.com

Fidelity Online Trading

\$7.95 on online trades. Plus trade 25 iShares ETFs online for free. www.fidelity.com

2547% Penny Stock Picks?

Our last pick exploded 2547% - Join our free newsletter today! www.PennyStockAdvice.com

[Buy a link here](#)

CNNMoney.com Comment Policy: CNNMoney.com encourages you to add a comment to this discussion. You may not post any unlawful, threatening, libelous, defamatory, obscene, pornographic or other material that would violate the law. Please note that CNNMoney.com may edit comments for clarity or to keep out questionable or off-topic material. All comments should be relevant to the post and remain respectful of other authors and commenters. By submitting your comment, you hereby give CNNMoney.com the right, but not the obligation, to post, air, edit, exhibit, telecast, cablecast, webcast, re-use, publish, reproduce, use, license, print, distribute or otherwise use your comment(s) and accompanying personal identifying information via all forms of media now known or hereafter devised, worldwide, in perpetuity. [CNNMoney.com Privacy Statement](#)

Colin Barr [Washington's debt ceiling terrorists](#)

STREET SWEEP

Dan Primack [Carlyle's Rubenstein: Why China 'really' loves private equity](#)

TERM SHEET

Katie Benner [S&P: Why we downgraded our U.S. outlook](#)

Scott Cendrowski [Cov-Lite's comeback](#)

Duff McDonald [Why I'm not buying Zillow](#)

Hedgeye [Forget patriotism. Dump the dollar, go long the loonie.](#)

Allan Sloan [A U.S. debt downgrade isn't the real problem](#)

Nin-Hai Tseng [Follow Canada? Only at your own risk.](#)

Shawn Tully [In defense of Paul Ryan's Medicare plan](#)

Becky Quick [Fed should focus on inflation, not jobs](#)

Markets

| MARKET MOVERS | | US INDICES | |
|---|-------|------------|----------|
| Company | Price | Change | % Change |
| Citigroup Inc | 4.50 | -0.01 | -0.33% |
| Bank of America Corp... | 12.32 | 0.08 | 0.70% |
| Cisco Systems Inc | 17.14 | -0.38 | -2.18% |
| General Electric Com... | 20.74 | 0.63 | 3.16% |
| Ford Motor Co | 15.46 | -0.20 | -1.25% |

Data as of 2:36pm ET

Sponsored by [Subscribe to Money Magazine](#)

Sponsored Links

HOTTEST OIL STOCK IN US!
Will the "new Bakken" oil find pump wealth into your portfolio? Only if you act now.

Fidelity Online Trading
\$7.95 on online trades. Plus trade 25 iShares ETFs online for free.

2547% Penny Stock Picks?
Our last pick exploded 2547% - Join our free newsletter today!

Top High-Dividend Stocks
New Report reveals Top 5 dividend stocks yielding up to 13.3% - Free!

[Buy a link here](#)

Most Popular

MOST
READ

MOST
COMMENTED

EDITOR'S
PICKS

1. [Jamie Dimon's silly housing subsidy](#) [More](#)

Connect with Fortune



Fortune is on Facebook. Sign up to connect.
[Facebook.com/fortunemagazine](https://www.facebook.com/fortunemagazine)



For real-time analysis from the best in business, follow
[@fortunemagazine](https://twitter.com/fortunemagazine)

[Home](#) | [Contact Us](#) | [Advertise with Us](#) | [Corrections](#) | [Career Opportunities](#) | [Site Map](#)
[RSS](#) | [Email Delivery](#) | [Portfolio](#) | [Podcasts](#) | [Mobile](#) | [Widgets](#) | [User Preferences](#) | [Special Sections](#)
[Subscribe to Fortune](#) | [Magazine Customer Service](#) | [Download Fortune Lists](#) | [Reprints](#) | [Conferences](#) | [Business Leader Council](#)

© 2011 Cable News Network. A Time Warner Company ALL RIGHTS RESERVED.
[Terms under which this service is provided to you.](#) [Privacy Policy.](#) [Ad choices](#) 

Market indexes are shown in real time, except for the DJIA, which is delayed by two minutes. All times are ET. Disclaimer LIBOR Warning: Neither BBA Enterprises Limited, nor the BBA LIBOR Contributor Banks, nor Reuters, can be held liable for any irregularity or inaccuracy of BBA LIBOR. Disclaimer. Morningstar: © 2011 Morningstar, Inc. All Rights Reserved. Disclaimer The Dow Jones IndexesSM are proprietary to and distributed by Dow Jones & Company, Inc. and have been licensed for use. All content of the Dow Jones IndexesSM © 2011 is proprietary to Dow Jones & Company, Inc Chicago Mercantile Association. The market data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. FactSet Research Systems Inc. 2011. All rights reserved. Most stock quote data provided by BATS.

Powered by [WordPress.com](#) VIP.

