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Former Hedge-Fund Managers Hit the Comeback Trail; Veteran Stock Pickers Michael Karsch, Adam Weiss Plan New Funds

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Abstract (summary)

Mr. Karsch, who wound down his \$1.8 billion Karsch Capital Management LP in 2013 following a streak of disappointing returns, says his time away--during which he consulted on investments for mentor Stanley Druckenmiller and helped develop a cold-pressed juice business--honed his skills. Mr. Weiss's \$6.7 billion Scout Capital Management LLC told investors last January it was closing because co-founder James Crichton wanted to continue managing money while Mr. Weiss didn't.

Full Text

It can be tough to start over in the hedge-fund world.

The \$2.8 trillion industry is strewn with tales of managers who, after shutting down large funds, relaunched only to limp along or close again. Undaunted, veteran stock pickers Michael Karsch and Adam Weiss plan to launch new funds less than two years after closing their old firms, according to Mr. Karsch and people familiar with Mr. Weiss's plans.

Mr. Karsch, who wound down his \$1.8 billion Karsch Capital Management LP in 2013 following a streak of disappointing returns, says his time away--during which he consulted on investments for mentor Stanley Druckenmiller and helped develop a cold-pressed juice business--honed his skills.

"I'm a better stock picker now versus then," the 46-year-old Mr. Karsch said recently from his office overlooking New York's Central Park. "It's not like I was working on my golf game."

Past success doesn't guarantee smooth sailing when starting anew. Case in point: Steve Eisman, who gained fame during the financial crisis for a winning bet against mortgages at FrontPoint Partners LLC. He started his own firm as FrontPoint collapsed amid an insider-trading case and closed Emrys Partners LP last year after lackluster returns.

The bar is set high for managers seeking a second chance, investors say. They must convince would-be clients they are serious about their return and offer a compelling explanation of how they plan to profit given the industry's underwhelming performance over the past few years, investors say.

"You have to view reboots with a very healthy dose of skepticism because it's rare that managers exit at the top of their game," said Henry Davis of New York-based Arden Asset Management LLC, which invests \$11.6 billion in hedge funds.

Some investors are backing away from hedge funds because of concerns about high fees and performance. Hedge funds returned 3.3% on average last year, according to research firm HFR, compared with 13.7% from the S&P 500.

Those who have presided over a blowup face even tougher odds. It has taken years for Nicholas Maounis, the head of Amaranth Advisors LLC when it collapsed in 2006, to begin attracting money for his current venture, according to a person familiar with the matter. A 2010 fundraising effort failed to gain traction.

Verition Fund Management LLC, started in 2008, has raised about \$70 million since last January with its track record in hand, the person said.

Some second acts have flourished despite the hurdles. William Ackman's Pershing Square Capital Management LP is a prime example, according to Mr. Karsch and a person familiar with Mr. Weiss. Mr. Ackman in 2003 unwound Gotham Partners Management Co., a \$300 million firm he co-founded, after a court ruling hurt one of its largest investments.

The 47-year-old Mr. Weiss decided to return because he missed investing with a team and a year spent teaching and writing got him excited about managing money again, the person said.

Mr. Weiss's \$6.7 billion Scout Capital Management LLC told investors last January it was closing because co-founder James Crichton wanted to continue managing money while Mr. Weiss didn't. Mr. Weiss thought it would be difficult to reflect while running a large firm, the person said. Scout's average annualized return since its 1999 start was more than 14%.

During his year away, Mr. Weiss worked on an investment book he has since scrapped and lectured at Stanford University. He expects to launch Stillwater Investment Management LP, a Palo Alto, Calif.-

based stock hedge fund, later this year.

Mr. Karsch launched his first hedge fund in 2000 after working at [Soros Fund Management](#). His flagship fund earned double-digit returns for five consecutive years and lost just 0.6% in 2008, far outperforming other stock hedge funds and the S&P 500, which dropped 37%. His firm grew to more than \$3 billion by 2010.

But he sharply underperformed the S&P 500 toward the end and told clients in an August 2013 letter he wanted to "take a step back. and begin to think about the next chapter of my career."

Mr. Karsch's fund returned an average of 7.5% annually over its 13-year run, compared with 3% total for the S&P 500.

Running "a 40-person organization, it was not what I wanted to be doing. I wanted to be finding the next Jackson Hewitt, the next Timberland," Mr. Karsch said, referring to stocks he made winning bets on early in his career that fueled his interest in investing. He said he is proud of returning money instead of collecting fees off it while contemplating what came next.

He has since focused on Juice Press, a Manhattan-based seller of cold-pressed juices. He is the majority owner of the five-year-old company and has promoted it on [CNBC](#) and to friends, doling out samples and discount cards. His wife is an innovation consultant and his sister heads marketing.

He wants his new firm, still unnamed, to have a similar startup feel, in part so he can focus on investing.

One former investor has passed on the new fund, saying Mr. Karsch seems more excited about the juice business than the hedge-fund business. "I'm a very passionate business person," Mr. Karsch said. He has preliminary commitments of \$300 million, said a person familiar with the matter.

KKR & Co. partner Marc Lipschultz, a longtime friend of Mr. Karsch's who invested in his old fund, said he planned to commit. "With Michael, what I know is when he's in, he's all in."

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Credit: By Juliet Chung

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