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Shorts Target Airlines, Builders

By TOM SULLIVAN | **MORE ARTICLES BY AUTHOR**

Shorting the consumer.

SHORT SELLERS APPEAR TO BE MOVING OUT OF FINANCIAL stocks and into consumer-spending plays.

Hedge-fund managers "are very, very concerned [about companies] exposed to the consumer's wallet or pocketbook," says Scott Baker, principal of Cook Pine Capital, a Greenwich, Conn.-based firm that invests in hedge funds for wealthy individuals.

Translated, that means they're shorting airlines and construction companies, which are getting squeezed at both ends and have no pricing power. Airline traffic is down at the same time that fuel prices are soaring. And construction spending, like home prices, is spiraling down at a time when loans are scarce and the cost of materials like steel and cement is high.

The shorts, including many hedge-fund managers, are worried about getting burned if financial companies get a boost from deep-pocketed foreign banks or private-equity funds swooping in to pick up embattled concerns at attractive prices. "They're gun-shy about short positions" in this sector, Baker says.

They're also worried about owning financial stocks, given the possibility of more writeoffs in the sector, not to mention **Royal Bank of Scotland**'s (ticker: RBS.U.K.) recent warning of a possible crash in global stock and credit markets in the next three months.

"Volatility is so high that they can reduce gross exposure by 40% and still have the same amount of volatility [in their funds] as a year ago, with 2.5 times leverage," says Baker.

As a result, many managers are sitting on stockpiles of cash and waiting to go bottom-fishing, if only a bottom were in sight. But they also fear that biding their time might allow rivals to snap up stocks whose prices they thought would fall further. There's "a lot of angst," says Baker.

So much so that many investors, especially those who look at distressed debt, are double-checking their place in a company's capital structure to see where their securities stand in the payout pecking order in the event of a bankruptcy. They're also reviewing bank-loan covenants, which got extremely lax during the credit binge, meaning some poorly-performing companies can hang on without worrying about being forced into bankruptcy even as their stock prices plummet.

Has the worm turned, or what?

CHICAGO-BASED DATA FIRM Hedge Fund Research reported last week that net hedge-fund launches fell in the first quarter to their lowest level since 2000 -- the end of the technology bubble. Just 247 new funds opened in the first quarter, while 170 were liquidated. Hedge-fund performance has been essentially flat, with the HFRI Fund Weighted Composite up just 0.11% this year, through May.