Investment legend John Paulson's Funds hit hard times!

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It's tough to be the king. John Paulson, current monarch of hedge funds, is having a challenging year, according to recent reports. Bloomberg recently reported that Paulson's $9 billion Advantage fund was down 5.8% in the first six months of the year.

His Advantage Plus fund was down 8.8%. And while his Recovery fund was reportedly up through June, my research has shown that it suffered a 12.4% decline that month (well one cannot always be right and that includes myself). Like all fund managers they are loved when they perform well and are hated when their performance is not so hot, as I know too well!

However, as I said in a previous report, John like myself predicted Gold perform well some time ago. Lo and behold the only positive performer has been his gold fund, up 13% for the year. RIO Professional Investors Fund, which also trades Gold, is up over 11% in the same period my last two trades concluded have pushed us slightly ahead on performance.

John is the man who, for a string of years, did not know the meaning of a monthly decline. Arguably the biggest winner from the US housing crash, one of his funds returned an incredible 590%. In 2007 Paulson made one of the biggest plays in the history of hedge funds and it paid off.

The Goldman Sachs saga seems to be at an end (GS, Fortune 500) and the Abacus structure for which the bank settled with the SEC on Thursday? As I recall, that was at the behest of Paulson, looking for an investment house to take the other side of his bearish housing bets. And there was no shortage of them most investment houses were interested. His success: a literal explosion of assets under management from just $12.5 billion in 2007 to $36 billion as of November 2008. His payday in 2007 was a staggering $3.7 billion, underlying the famous saying "where there's muck there's brass!".

Paulson, made his name as a contrarian. Is it even possible to be contrarian with more than $30 billion under management? Well it certainly looks like he going to give it a go. I believe he is apparently ignoring the fact that no one feels like they have any spare cash these days, Paulson's team has bet big on the highly leveraged casino industry. He's big into the equity of Harrah's, MGM (MGM, Fortune 500), and Boyd Gaming (BYD), three distressed investments if there ever were any! But who knows, lets wait and see?

That said; I am researching all three of the above stocks to see why he thinks these are of interest, just in case. After all John and I have both agreed before. We share a common factor both predicting two of the most dramatic moves in financial history, the US housing collapse that shook the foundations of the whole financial system and the phenomenal rise of Gold which has been well documented.

We were both dead right being contrarians on the subprime mortgage fiasco. I was one of the few that predicted this collapse long before most investment institutions even hinted at trouble, as members know. However, I did not sell short in this market, like John, since I am not a fund manager specializing in distressed assets.

Gold

Then there's the gold investment. He's been right about it conceptually, of course. His $3 billion position in the SPDR gold trust has certainly paid off. However, the large position he took in AngloGold Ashanti (AU), namely the 12% stake was acquired in March 2009 for $32 a share has underperformed. It would have been a more straightforward investment had he invested 100% the physical commodity itself in my opinion as Gold mining shares carry a far greater risk.

Paulson's other investment of note is on the U.S. banking industry, a remarkably bullish call on the U.S. economy. He owns shares in Bank of America (BAC, Fortune 500) ($3 billion worth),Citigroup (C, Fortune 500) ($2 billion worth), as well as Suntrust (STI, Fortune 500), JPMorgan Chase (JPM, Fortune 500), Capital One (COF, Fortune 500), and Wells Fargo (WFC, Fortune 500). He's made money on these bets already, riding them up from their March 2008 lows. To continue owning them in the face of inevitably rising interest rates or a possible double-dip is certainly taking a contrarian stand.

Look, most people have nice things to say about Paulson but success breeds jealous competitors and the odd investor that cannot take the fact that he is very good at his job.

My opinion is that John is a very smart guy with a history of doing well in merger arbitrage with a much smaller fund then he runs today. In the trade talk of Wall Street, John Paulson is now so big that he is unable to "put on" or "take off" risk when he feels like it. The AngloGold stake, for example, is probably his to keep from this point onward, unless he's selling at cut-rate prices.

Should he have retired with his $3.7 billion payday in 2007 and gone into history as one of the best ever? Or is he merely doing what is economically rational and taking the huge management fees when they're there for the taking? Only time can tell?

Whenever he has finally had enough, he is going to be a very rich man, although more of a mortal to some than he appeared in 2009.

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