Here's guessing J.C. Penney and William Ackman wish they had never set eyes on each other.

Penney's fortunes have fallen hard since the activist investor's hedge fund, Pershing Square Capital Management, disclosed in October 2010 that he had built a stake in the retailer. When Penney reports second-quarter results next week, analysts expect sales to be 30% below where they were three years earlier.

Penney's stock, now at $12.68, is about half the roughly $25 a share Mr. Ackman reportedly paid for his stake. So he is down something like $500 million. Even for billionaires, that is a lot of money.

It would be rash to ascribe Penney's woes to any one thing, or person. But in some respects, it may have been a victim of activists' past successes.

The rap on activist hedge funds—that together they hurt the long-term interests of companies and their shareholders—doesn't stand up to the data, according to a recent analysis conducted by Alon Brav of Duke University's Fuqua School of Business with Lucian Bebchuk of Harvard Law School and Wei Jiang of Columbia Business School.

But data Mr. Brav and Ms. Jiang have helped put together also show the business of hedge-fund activism is highly cyclical. A target-rich environment where a relatively small number of funds generate handsome returns gives way to one where more activist funds enter the fray, and returns suffer. The system gets flushed out, and the cycle begins anew.

Activists did well in 2009, but by late 2010 when Mr. Ackman built his Penney stake, the easiest pickings may have been taken. To create value under those circumstances, says Mr. Brav, "you will have to do something that is not so simple." One example: entering the cutthroat world of department-store retail and pushing through a huge reconfiguration of the business.

Penney's experience suggests it is high time for activist hedge funds to let the fields lie fallow for a while. Until that happens, investors may be wise to look at activists' stakes as red flags rather than buy signals.