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## Hedge funds beat the market

A hedge fund can be defined as a group of pooled funds overseen by a fund manager, which are used in a variety of aggressive investment strategies in order to seek the highest possible return. As with any type of fund, the greater the degree of risk embedded in the strategy, the greater the possibility of reward and loss. With that in mind, taking time to properly understand the different types of hedge funds will ensure that you have the information you need to make the right investment decisions for your budget. Some of the more common hedge fund formats include long/short investment strategies and market neutral investment plans, as well as global macro funds, which are based on their diverse investment portfolio. Different hedge funds are often distinguished from one another based on their specific investment strategies. With that in mind, some of the most common hedge funds are long/short funds, market neutral investment plans and global macro funds.Exploring the Basics of Hedge FundsFrom a purely legal perspective, there is no fixed definition of a hedge fund or the specific investment strategies it must use to be qualified as such. Because of this, hedge funds can differ widely in the tactics used by their managers. When a hedge fund is first established, it is typically organized as a private investment limited partnership. By and large, hedge funds are often opened solely to a limited number of investors, all of whom have achieved accredited status. Entry into the hedge fund will also require a relatively large minimum deposit compared to most mutual funds. Understanding Illiquid Hedge FundsMost hedge funds are considered illiquid, which means that investors are unable to simply pull their investment out of the fund at their discretion. After entering a hedge fund, investors will often be required to keep their funds in the account for a minimum of one year, during which the fund manager will assume full control of the money. This period of time in which investors cannot access their account is often referred to as the "lock-up period". Once the lock-up period has ended, investors will still be required to adhere to specific rules regarding withdrawals of their funds. It is most often the case that funds can only be withdrawn at infrequent intervals, such as every quarter or even every six months. Researching the History of Hedge FundsThe first hedge fund was established in 1949 by A.W. Jones and Company. After raising \$100,000, fund founder Alfred Winslow developed what is now commonly referred to as the long/short equities model of investment, one of the most popular investment strategies used by hedge funds today. Following the success of the A.W. Jones and Co. hedge fund, the number of similar funds in existence began to increase dramatically. By the 1960s, studies showed that the majority of hedge funds in operation achieved a higher degree of return for their investors than traditional mutual funds. That being said, the continued push for increased profits led many fund managers to begin exploring new high-risk investment strategies, which culminated in staggering losses for the industry in 1969 and 1973 to 1974. A large number of the newly minted hedge funds opened during this period were forced to close due to unsustainable losses. It would be almost two decades before hedge funds achieved a degree of recognition and celebrity once again. In the early 1990s, a large number of hedge funds sprang into existence again, this time covering an even more diverse array of investment platforms such as FOREX, options trading and more. Although the hedge fund market would yet again experience staggering losses in the opening years of the new millennium, this did not dampen the overall enthusiasm of aspiring managers or investors. Today, the hedge fund market is diverse, robust and highly active. Hedge Funds in OperationWhen investors deposit funds in a hedge fund to be overseen by the fund manager, they do so with the acknowledgement that both a portion of their investment as well as a percentage of any profits made will be paid to the fund manager. Although the specific details of manager compensation will differ from fund to fund, it is generally expected that the fund manager will be paid nearly 2 percent of the assets under their supervision as well as 20 percent of total profits. As an example, consider a fund that includes \$1 billion in assets that made \$142 million in profits for the previous year. The fund manager will receive 2 percent of the \$1 billion - or \$20 million - as their base salary, in addition to 20 percent of the 142 million in profits, or \$28.4 million. Although this may seem like a staggering sum of money, it is important to remember that a variety of regulations are in place to ensure that fund managers do not purposefully underperform in order to rake in funds while expending minimal effort. A high-water-mark system is often employed, which charts a fund's peak performance and uses this as a benchmark stipulating that the fund manager cannot receive any form of performance bonus until the fund exceeds that level of prior performance. Hedge Fund Formats and Trading StrategiesAs mentioned previously, a hedge fund can employ virtually any legal trading strategy to help investors gain a competitive edge in the marketplace. Because of this diversity, hedge funds are typically categorized by the specific trading strategies they employ. With this information, accredited investors can make informed decisions as to whether or not a specific fund matches their needs and expectations. The long/short strategy discussed earlier is by and large one of the most popular hedge fund investing methods used today. Funds using this particular method will typically feature a portfolio in which 70 percent of managed funds are invested in long positions while 30 percent are invested in more tactical shorting positions. The idea behind this strategy is relatively straightforward. By holding both long and short positions, the fund can weather a variety of market volatility that may otherwise cripple profit growth over the short term. Assessing Market Neutral Trading StrategiesSimilar to a long/short trading strategy, hedge fund managers deploying a market neutral investment plan are holding both long and short positions. Whereas the former strategy involved a 70/30 split between long and short positions, however, a market neutral strategy features a more balanced 50/50 split between these two positions. The rationale behind this method is that the fund manager is seeking to reduce the impact of market volatility on the performance of the fund. Instead, the goal is to achieve an equilibrium where performance is based entirely on the accuracy of the manager's picks rather than external forces driving the market up or down. Actively managing a market neutral fund is considered by many experts to be a time-intensive, high-effort proposition. With that in mind, it is not uncommon to see some of the industry's highest management fees in funds that deploy this particular trading strategy. Understanding Global Macro FundsOf the trading strategies mentioned here, global macro funds are typically consider the most high risk/high reward. By definition, global macro funds focus on investments in a variety of stocks and bonds in addition to options, derivatives, currencies and, at times, commodities. While this level of diversification is not necessarily a sign of increased risk, the leverage deployed by these funds is. Global macro funds are highly leveraged, meaning that funds managers are essentially borrowing money to invest in hopes of reaping the highest level of fiscal reward possible in the event that the underlying price of the assets behaves as they expect it to. Of course, in situations where the opposite occurs, funds that are highly leveraged tend to plummet in value, resulting in massive investor loss. There are a variety of examples in recent history of both significant success and failures in the world of global macro fund management. Investors who are interested in these funds should carry a high appetite for risk and ensure that they are not over-investing in an inherently unstable platform. Funds Specializing in Distressed SecuritiesIn some scenarios, a fund will focus exclusively on what are referred to as distressed securities, or companies that are facing fiscal turmoil due to a variety of reasons. Distressed securities provide an appealing target to fund managers due to the fact that the share price will likely have fallen significantly in recent history. Funds that invest in a distressed security typically have a variety of options available to them, ranging from taking an active role in the company's board of directors and implementing logistical and administrative changes, to merely sitting back and allowing current corporate leadership to solve whatever challenges instigated their financial problems. Once a fund purchases a significant, perhaps even majority stake in a company, they have the ability to fundamentally influence the future of the company. In more extreme cases, this could mean that the company is broken up and sold in order to raise share price and satisfy investors. Such actions are often viewed in an unfavorable light, however, due to the fact that employees are put out of work as a trade for investor profit. Moving Forward With Hedge FundsIn addition to the trading strategies mentioned here, a wide variety of other fund tactics are used on a regular basis by fund managers around the world. With that idea in mind, it is crucial that potential investors take the time needed to fully explore the operations and performance of leading hedge funds in order to ensure that they invest in a fund that matches their own values and objectives. Failure to do this could result in headaches for investors down the road, in addition to any money they may have lost. While there certainly is no foolproof method of predicting the marketplace, investors may discover that a specific hedge fund strategy more closely matches their own opinions and preferences when it comes to investing hard-earned money. Ultimately, accredited investors should do all the research necessary in order to ensure that they place their investments in a fund that is capable of delivering what has been promised to them. do hedge funds beat the market. how many hedge funds beat the market. what percentage of hedge funds beat the market. what percent of hedge funds beat the market. can hedge funds beat the market. do hedge funds beat the market reddit. how often do hedge funds beat the market. hedge funds that consistently beat the market

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