

---

---

# TABLE OF CONTENTS

---

---

<b>Introduction</b>	<b>vii</b>
<b>PART 1: WHAT IS A HEDGE FUND, ANYWAY?</b>	<b>1</b>
<b>Chapter 1: Hedge Funds: Alternative Assets and Alternative Strategies</b>	<b>3</b>
Defining Hedge Funds	3
Defining Alternative Strategies	4
Introducing Some Basic Concepts	5
Meeting the People in Your Hedge Fund Neighborhood	11
Paying Fees in a Hedge Fund	13
<b>Chapter 1: Test Your Knowledge</b>	<b>17</b>
<b>Chapter 1: Solutions and Suggested Responses</b>	<b>19</b>
<b>Chapter 2: Not Just a Sleeping Aid: Analyzing SEC Registration</b>	<b>21</b>
Looking at Securities Laws	22
Getting to Know the SEC's Stance on Hedge Fund Regulation	24
Going Coastal: Avoiding the Registration Debate through Offshore Funds	28
Investing in a Fund without Registration	29
<b>Chapter 2: Test Your Knowledge</b>	<b>31</b>
<b>Chapter 2: Solutions and Suggested Responses</b>	<b>33</b>
<b>Chapter 3: How to Buy into a Hedge Fund</b>	<b>35</b>
Using Consultants and Brokers	35
Marketing to and for Hedge Fund Managers	37
Investor, Come on Down: Pricing Funds	38
Purchasing Your Stake in the Fund	42
Signing Your Name on the Bottom Line	44
<b>Chapter 3: Test Your Knowledge</b>	<b>47</b>
<b>Chapter 3: Solutions and Suggested Responses</b>	<b>49</b>
<b>Chapter 4: Using Hedge-Fund Strategies without the Hedge Funds</b>	<b>51</b>
A Diversified Portfolio Is a Hedged Portfolio	51
Exploring Your Expanding Asset Universe	54
Structuring a Hedge-Filled Portfolio	59
Utilizing Margin and Leverage in Your Accounts	61
Hedge Fund Strategies in Mutual Funds and ETFs	66
<b>Chapter 4: Test Your Knowledge</b>	<b>69</b>
<b>Chapter 4: Solutions and Suggested Responses</b>	<b>71</b>
<b>Chapter 5: Hedging through Research and Asset Selection</b>	<b>73</b>
First Things First: Examining Your Asset Options	73
Kicking the Tires: Fundamental Research	84
How a Hedge Fund Puts Research Findings to Work	89

<b>Chapter 5: Test Your Knowledge</b>	<b>93</b>
<b>Chapter 5: Solutions and Suggested Responses</b>	<b>95</b>
<b>PART 2: LOOKING AT ALTERNATIVE STRATEGIES</b>	<b>97</b>
<b>Chapter 6: Calculating Investment Risk and Return</b>	<b>99</b>
Market Efficiency and You, the Hedge Fund Investor	99
Using the Modern (Markowitz) Portfolio Theory (MPT)	102
Discovering How Interest Rates Affect the Investment Climate	113
Investing Irrationally: Behavioral Finance	118
<b>Chapter 6: Test Your Knowledge</b>	<b>123</b>
<b>Chapter 6: Solutions and Suggested Responses</b>	<b>125</b>
<b>Chapter 7: Buying Low, Selling High: Using Arbitrage in Hedge Funds</b>	<b>127</b>
Putting Arbitrage to Good Use	127
Cracking Open the Arbitrageur's Toolbox	131
Flipping through the Rolodex of Arbitrage Types	133
<b>Chapter 7: Test Your Knowledge</b>	<b>141</b>
<b>Chapter 7: Solutions and Suggested Responses</b>	<b>143</b>
<b>Chapter 8: Short-Selling, Leveraging, and Other Equity Strategies</b>	<b>145</b>
Short-Selling versus Leveraging: A Brief Overview	145
Strutting in the Equity Style Show	146
Market Neutrality: Taking the Market out of Hedge Fund Performance	150
Rebalancing a Portfolio	153
Long-Short Funds	156
Making Market Calls	158
<b>Chapter 8: Test Your Knowledge</b>	<b>163</b>
<b>Chapter 8: Solutions and Suggested Responses</b>	<b>165</b>
<b>Chapter 9: Observing How Hedge Funds Profit from the Corporate Life Cycle</b>	<b>167</b>
Examining the Corporate Structure (And How Hedge Funds Enter the Picture)	167
From Ventures to Vultures: Participating in Corporate Life Cycles	170
<b>Chapter 9: Test Your Knowledge</b>	<b>179</b>
<b>Chapter 9: Solutions and Suggested Responses</b>	<b>181</b>
<b>Chapter 10: Macro Funds: Looking for Global Trends</b>	<b>183</b>
Fathoming Macroeconomics	184
Taking Special Issues for Macro Funds into Consideration	186
Widening or Narrowing Your Macro Scope	188
<b>Chapter 10: Test Your Knowledge</b>	<b>197</b>
<b>Chapter 10: Solutions and Suggested Responses</b>	<b>199</b>

<b>PART 3: DETERMINING WHETHER ALTERNATIVE INVESTMENTS ARE RIGHT FOR YOU</b>	<b>201</b>
<b>Chapter 11: Fitting Alternatives into a Portfolio</b>	<b>203</b>
Assaying Asset Allocations	203
Using Hedge Funds as an Asset Class	205
Viewing a Hedge Fund as an Overlay	210
Mixing and Matching Your Funds	212
<b>Chapter 11: Test Your Knowledge</b>	<b>217</b>
<b>Chapter 11: Solutions and Suggested Responses</b>	<b>219</b>
<b>Chapter 12: Examining How Hedge Funds Are Structured</b>	<b>221</b>
Exploring the Uneven Relationships between Fund Partners	221
Only Accredited or Qualified Investors Need Apply	223
Following the Cash Flow within a Hedge Fund	226
Fee, Fi, Fo, Cha-Ching! Paying the Fees Associated with Hedge Funds	228
Dealing with the Hedge Fund Manager	231
Seeking Alternatives to Hedge Funds	233
<b>Chapter 12: Test Your Knowledge</b>	<b>237</b>
<b>Chapter 12: Solutions and Suggested Responses</b>	<b>239</b>
<b>Chapter 13: But Will You Make Money? Evaluating Hedge Fund Performance</b>	<b>241</b>
Measuring a Hedge Fund's Risk and Return	241
Benchmarks for Evaluating a Fund's Risk and Return	249
Putting Risk and Return into Context with Academic Measures	253
Serving Yourself with a Reality Check on Hedge Fund Returns	256
Hiring a Reporting Service to Track Hedge Fund Performance	258
<b>Chapter 13: Test Your Knowledge</b>	<b>261</b>
<b>Chapter 13: Solutions and Suggested Responses</b>	<b>263</b>
<b>Chapter 14: You Want Your Money When? Balancing Time and Liquidity</b>	<b>265</b>
Considering Your Cash Needs	265
Like Dollars through the Hourglass: Determining Your Time Horizon	266
Poring Over Your Principal Needs	269
Handling Liquidity After You Make Your Initial Investment	271
<b>Chapter 14: Test Your Knowledge</b>	<b>277</b>
<b>Chapter 14: Solutions and Suggested Responses</b>	<b>279</b>
<b>Chapter 15: Taxes, Responsibilities, Transparency, and Other Investment Considerations</b>	<b>281</b>
Taxing You, the Hedge Fund Investor (Hey, It's Better than Death!)	281
Figuring Out Your Fiduciary Responsibility	287
Transparency in Hedge Funds: Rare but There	291
<b>Chapter 15: Test Your Knowledge</b>	<b>297</b>
<b>Chapter 15: Solutions and Suggested Responses</b>	<b>299</b>

<b>PART 4: SPECIAL CONSIDERATIONS REGARDING HEDGE FUNDS</b>	<b>301</b>
<b>Chapter 16: Hooking onto Other Types of Hedge Funds</b>	<b>303</b>
Multi-Strategy Funds: Pursuing a Range of Investment Strategies	303
Funds of Funds: Investing in a Variety of Hedge Funds	306
Hedge Funds by Any Other Name	312
Entering Mutual Funds That Hedge	313
<b>Chapter 16: Test Your Knowledge</b>	<b>315</b>
<b>Chapter 16: Solutions and Suggested Responses</b>	<b>317</b>
<b>Chapter 17: Hiring a Consultant to Help You with Hedge Funds</b>	<b>319</b>
Who Consultants Work For	319
What Do Consultants Do (Besides Consult)?	320
Hunting for the Hedge Fund Grail: A Qualified Consultant	323
Managing Conflicts of Interest	325
Compensating Consultants for Their Services	326
Hedge Funds Pay the Consultants, Too	329
<b>Chapter 17: Test Your Knowledge</b>	<b>331</b>
<b>Chapter 17: Solutions and Suggested Responses</b>	<b>333</b>
<b>Chapter 18: Doing Due Diligence on a Hedge Fund</b>	<b>335</b>
Why Do Due Diligence?	335
Becoming Your Own Magnum, P.I.: Investment Investigator	337
What Are You Gonna Do When the Hedge Fund Does Due Diligence on YOU!	345
Knowing the Limits of Due Diligence	346
<b>Chapter 18: Test Your Knowledge</b>	<b>349</b>
<b>Chapter 18: Solutions and Suggested Responses</b>	<b>351</b>
<b>APPENDIX: THE PART OF TENS</b>	<b>355</b>
<b>Ten (Plus One) Big Myths about Hedge Funds</b>	<b>357</b>
<b>Ten Good Reasons to Invest in a Hedge Fund</b>	<b>361</b>
<b>Glossary</b>	<b>367</b>
<b>Index</b>	<b>369</b>
<b>Final Exam Copy</b>	<b>378</b>