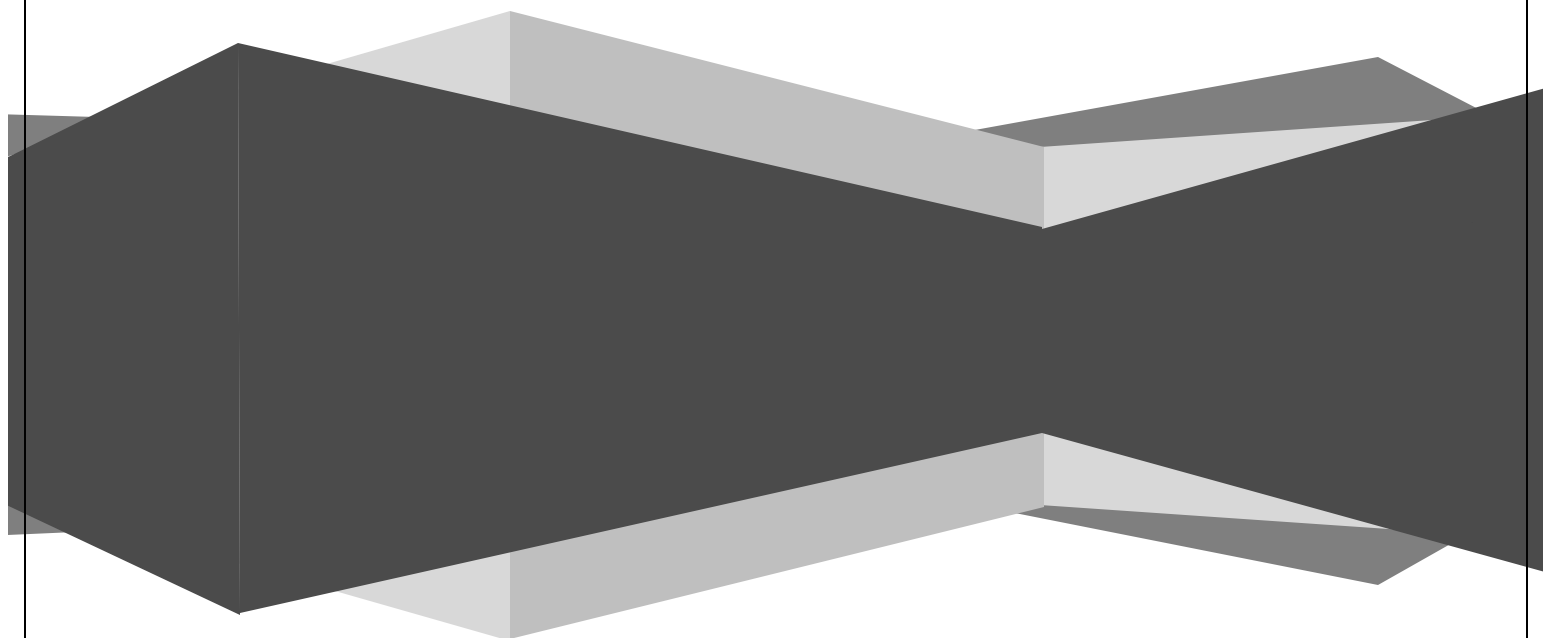


The Hedge Fund Handbook

For Journalists Entering the Field

Brandon Blake



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HISTORY OF THE HEDGE FUND

By definition, a hedge fund is “an aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark),” according to Investopedia.com. Essentially, a hedge fund is collection of financial assets that are invested using techniques like leveraging, gathering funds by borrowing rather than obtaining shares, to ultimately generate high returns.

According to gabelli.com, Alfred Winslow Jones formed the first hedge fund in 1949. After graduating from Harvard University in 1923, Jones held a wide variety of employment positions. He served as a U.S. diplomat in Germany in the 1930s, worked as a journalist during the Spanish Civil War, and as a purser on tramp steamers. A purser is someone who handles all the money on board the ship and tramp steamers are ships that don't have set schedules. In 1941, Jones landed a job as a reporter for Fortune Magazine. While constructing an article on investing and forecasting market demands, Jones realized he had a more efficient and effective method of managing money. Jones invested \$100,000, which he obtained through a combination of personal investment and acquired funds, into his new system and entered into an investment partnership.

Jones' idea was brilliant. He first invested his money in stock of a company. Jones “hedged” or protected certain stocks by selling others. This protected the stocks because it nullified the risk associated with every market. Jones also used leverage to improve the return on his assets. Thus, the term hedge fund was born.

In 1966, Fortune Magazine published an article titled “The Jones’ That Nobody Can Keep Up With.” The article summarized Jones’ extraordinary success, stating that his partnership had done 44 percent better than the top mutual fund, and 85 percent better than the top five-year performing mutual fund.

In the late 1960s and early 1970s, hedge funds did poorly. Managers didn’t follow Jones’ successful strategy of shorting a small portion of a portfolio. Instead, they were impatient and wanted to make money quicker; they leveraged dicey business in unforgiving markets and lost a lot of money, especially in the 1973-1974 bear market. Many hedge fund managers closed the door on their company. In 1984, only 68 hedge funds remained.

The 1990s marked an era of hedge fund proliferation. Hedge fund giants George Soros of Quantum Fund and Julian Robertson of Tiger Fund generated enormous returns with a slightly different style than Jones because they explored different markets like the currency market and the futures and options markets. In 1990, there were 610 hedge funds controlling \$39 billion in assets. In 2000, there were close to 4,000 funds controlling \$490 billion in assets. In 2007, 8,350 hedge funds controlled \$1 trillion.

Today, the hedge fund industry is growing exponentially, Edward Papier wrote in an article titled “Current Trends in Hedge Funds.” Companies can now utilize FoFs (a hedge fund of funds) to decrease the severity of the common risks linked to hedge funds. These FoFs are now more accessible to investors, which is facilitating more and more investments, thus bringing additional money into the industry.

BENEFITS OF INVESTING IN OR PURCHASING A HEDGE FUND

(information obtained from <http://cisdm.som.umass.edu/research/pdffiles/benefitsofhedgefunds.pdf>, <http://www.nymex.com/media/bhf.pdf>, and http://www.hughestrustco.com/hedge_fund_benefits.html)

- 1** Hedge funds provide returns in economic environments in which traditional stock and bond investments offer limited return. In other words, the returns hedge funds generate don't fluctuate with the bull and bear markets as the as stock and bonds do. Hedge funds will produce positive returns in all markets.
- 2** They provide risk reduction. Hedge funds will help reduce the risk on existing stock as well as bonds. Using a hedge fund to manage a portfolio of stocks and bonds will reduce overall portfolio risk. For a visual representation of this risk reduction, please refer to Appendix B3.
- 3** Hedge funds facilitate traditional long-only investment in stock and bond markets. They utilize numerous investment vehicles, in addition to the futures and options markets, to create unique investment opportunities that will yield significant returns.
- 4** Assets under management for hedge funds have grown from less than \$30 billion in 1990, to over 1.2 trillion in 2005. Hedge funds are becoming more and more popular. They are effective and will help invest your assets.

- 5** Hedge funds are expanding to a wide variety of new financial products and markets not available through traditional investment methods. They serve clients from new industries every year.
- 6** Hedge fund managers are paid based on their performance. In order to make money, they need to generate returns on your investments. They will work hard with your money. In addition, they are solely concerned with generating positive returns, as opposed to basing their performance on an equity index that could have a negative value.

HEDGE FUNDS VS. MUTUAL FUNDS

(information obtained from <http://www.magnum.com/hedgefunds/advantages.asp>)

Many people, specifically those new to the concept of a hedge fund, perceive hedge funds to be comparable and very similar to mutual funds; however this isn't the case. It is important you know the distinctions between a hedge fund and a mutual fund before entering the field and reporting on related issues.

According to Dustin Woodard of About.com, "a mutual fund is simply a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective." As previously explained by Investopedia.com, a hedge fund is "an aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark)." These two definitions are fairly similar, yet there are minor differences that must be highlighted.

In general, hedge funds have numerous investment options and create numerous investment opportunities because they utilize so many different investment vehicles. This gives hedge funds the flexibility to pick and choose different financial instruments to use and thus essentially dictate what returns the investments provide.

On the contrary, mutual funds are much more limited in what they can do, primarily how they can invest. They are governed by the U.S. Securities and Exchange Commission (SEC) which prevents them from using profitable strategies like short selling, leverage, and

concentrated investments. Mutual funds don't have nearly as much flexibility as hedge funds; therefore, they cannot protect their investments and reduce risk as effectively.

In addition to their operation, hedge funds and mutual funds also differ regarding their management. Hedge fund managers make considerable investments to the funds the company is responsible for managing, meaning their income is directly related to the success of the company. Therefore, hedge fund managers are making money based on the returns they generate. Mutual funds, however, are slightly different as managers normally don't have a lot invested in the company and are paid the same salary regardless of the company's success.

Finally, hedge funds are different than mutual funds with respect to quantity and profitability. Although there are significantly more mutual funds than hedge funds, the latter experiences far greater growth and financial success.

"During the last 18 years, the S&P 500 Index has had 17 negative quarters, totaling a negative return of 113.01%," www.magnum.com explains. "During those negative quarters, the average U.S. equity mutual fund had a total negative return of 115.7%, while the average hedge fund had a total negative return of only 10.3%." This information is the epitome of why hedge funds are more successful than mutual funds; they are able to maintain capital and continue generating positive returns in falling markets. See Appendix B1 for a graphical representation of the comparative performance of hedge funds and mutual funds.

THE INVESTMENT AND HEDGE FUND INDUSTRIES

(information obtained from <http://www.magnum.com/hedgefunds/advantages.asp> and <http://www.hedgeco.net/hedge-fund-managers-investment.htm>)

In 1990, there were 610 hedge funds, in 1995, there were 2,010, in 2000, there were close to 4,000 funds, and now in 2007, there are 8,350 hedge funds in operation. These statistics account for a 1,369 percent increase in the number of hedge funds over a 17-year period. This kind of growth is virtually unheard of in any industry, and it's definitely not slowing down as the number of hedge funds is growing about 20 percent every year. For a visual analysis of the growth in the number of hedge funds over the past 17 years, please refer to Appendix B2.

During the 1990s, the assets managed by hedge funds substantially increased. The hedge fund industry managed roughly \$40 billion in assets in the late 1980s, and about \$650 billion in assets in 2003. (The mutual fund industry managed more than \$6.5 trillion.)

Analysts say rising global equity markets are propelling hedge fund assets through the roof. The tremendous success of the technology sector is primarily responsible for this equity surge. Products like cell phones, ipods and computers are growing in popularity everyday; so much so, they are now somewhat woven into our culture. The past three years, which featured sub-par market performance, have also helped hedge funds establish themselves as worthy and effective investments. Stockholders and Wall Street investors lost exorbitant amounts of money and thus began investing in the hedge fund industry rather than stocks and bonds.

As the hedge fund industry continues to explode with success and appeal, mutual funds are becoming less desirable. Why invest in a mutual fund if a hedge fund can guarantee greater returns and better security?

KEY INVESTMENT STRATEGIES

(information obtained from <http://www.magnum.com/hedgefunds/advantages.asp>)

1 *Investing with future knowledge*

This means investing with the knowledge or feeling that something specific will happen in the industry and thus generate positive returns on an investment. Market analysts may predict the selling of a division of a large company, the merging of two companies or competitors, the selling of a company's major assets, a big sale or deal, strategic alliances companies may form to give them a strategic advantage, the filing of bankruptcy, or the emergence from bankruptcy. All of these events would drastically affect investments.

2 *Selling short*

Selling shares short means to sell them with hopes of buying them back in the future when the price will be lower. Although this method may seem basic, there is potential for significant benefits. Purchasing 100 shares for \$15 rather than \$20 saves the investor \$500.

3 *Derivative or options contracts*

Derivative or options contracts are valued based on the performance of an underlying asset or investment, not based on the feature investment. This strategy takes the focus off of the most prominent investment and instead relies on the secondary financial asset.

4 *Arbitrage*

The act of buying an asset at a low price, then immediately selling it on a different market for a higher price. This will obviously generate immediate profits and can have a big impact when companies are using arbitrage with assets valued in the millions.

5 *Recognizing discounted securities*

Companies that are just entering or emerging from financial bankruptcy will sell shares at a heavily discounted price. Buying stock in these companies will be cheap and effective if the buyer is knowledgeable about how to manipulate the investment (when to sell).

The price of shares in these companies will absolutely be lower than the liquidation value.

FORMS OF HEDGE FUND NEWS

(information referenced from Inside Reporting: A Practical Guide to the Craft of Journalism by Tim Harrower)

In covering a business-related topic like the hedge fund industry, you will most likely write one of the following styles: event, feature, investigative, profile, and process. In addition, you will undoubtedly be subjected to writing editorials and columns.

Event stories will cover a specific, news-worthy occurrence, most likely something that provoked some sort of change, either in a company or an industry. A company entering or emerging from bankruptcy, generating record annual returns, firing its CEO of 20 years, and implementing new strategies are all examples of possible events you might have to cover. In addition, you may be asked to cover events related to the hedge fund or investment industry like the industry taking a fall, or growing exponentially. Make sure to explain the important event in the lead to inform the reader what the news is and set up the rest of the article.

A second style to be familiar with is investigative reporting; investigating a series of events, piecing the puzzle together, and forming your own story based on the facts and information available. You'll sometimes do this without realizing it; it's natural for humans to jump to conclusions based on facts. Be careful to back up the story with concrete evidence so it doesn't turn into a column.

Process stories will also be fairly common in the hedge fund field because investment management companies in the hedge fund industry operate based on several different processes. Stories will often be "how to" stories. Topics may include how a hedge fund operates, what it does to invest a customer's money, and how it makes a profit.

Editorials and columns, like in any other field, will be popular. You'll be asked to either express a newspaper's or your personal opinion on hedge fund-related issues such as whether or not hedge funds are overcharging their clients and should there be a distinction between hedge funds and other financial asset management organizations that utilize the same strategies as hedge funds.

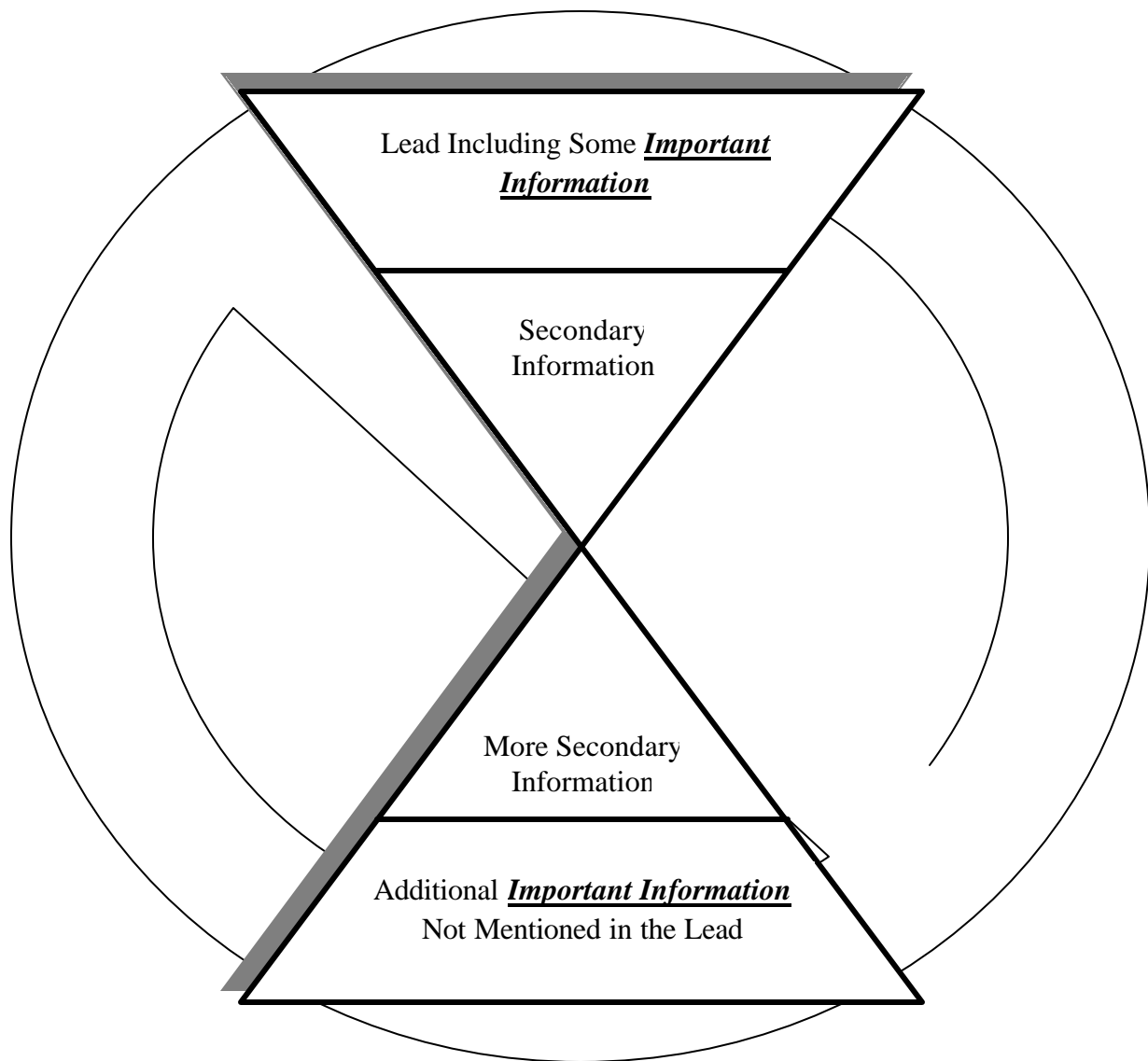
Finally, make sure you can write features stories. This type of news encompasses lifestyle and special interest news, subjects that don't necessarily fit into the other categories. Features topics may include personality profiles, human-interest stories, flashbacks, and consumer guides. Readers typically like these types of stories because they bring color and intrigue to an otherwise potentially dry subject.

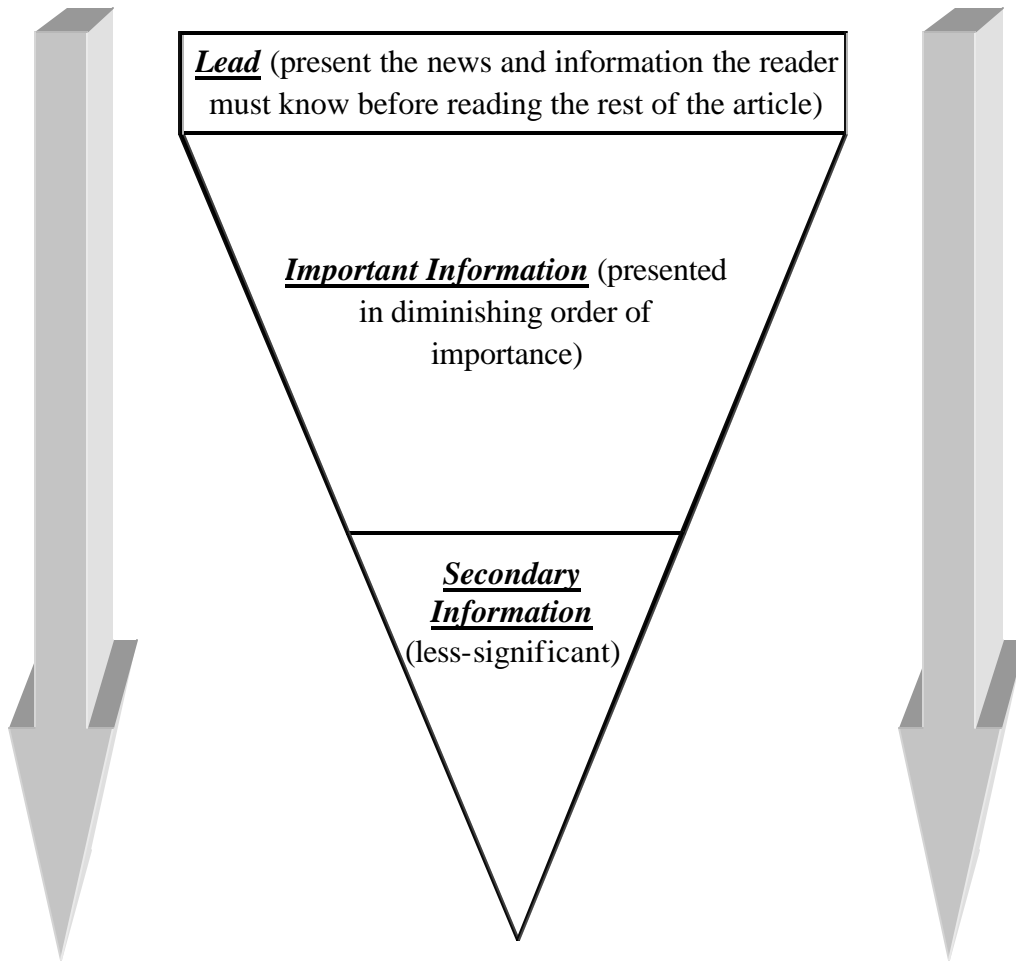
SUGGESTED STORY STRUCTURE

(information referenced from Inside Reporting: A Practical Guide to the Craft of Journalism by Tim Harrower)

When constructing a story, you must be extremely conscientious of how you relay the news and information. If the first few sentences don't intrigue the reader, he or she won't read the rest of the article. After you've captured the attention of the reader, be sure to present the bulk of the information (the body) in a technically correct way, including important information (in diminishing order of importance), then the remaining, less-significant information, as pictured in the inverted triangle graphic representation on page 18. Using this strategy will ensure the story has a strong introduction, information-rich body, and overall good flow.

Avoid writing your story based on the hourglass model below. Never present important information, essential to the reader's understanding and comprehension of the story, at the beginning and end of the article; it is ineffective, sloppy, and clearly says you haven't mastered the rudimentary skills of journalism. Always incorporate the most important information in the lead, or if it all won't fit, make sure to include it in the next one or two sentences.





TIPS FOR NEW JOURNALISTS IN THE FIELD

1 *Use metaphors and similes in articles, specifically in leads*

The use of figurative language, especially in the first few sentences of the article, will both capture the reader's attention and help to effectively convey the most important aspects of the news. Metaphors and similes can often add texture and consistency to otherwise dry topics; therefore, utilize this method when you feel the reader won't be terribly excited about the news. Please reference the "Hedge Fund Lead Examples" page for guidance.

2 *Learn the business terminology*

When you are gathering information, through observation, written and published materials, and interviews, it will greatly benefit you to be familiar with business lingo. Not only will you not have to look up individual terms after you've scribbled down seven pages of text, but understanding the business language will improve your overall understanding of the situation and story you are covering. Refer to the glossary in Appendix A for an extensive list of important business-related terms and their definitions.

3 *Ask plenty of questions*

Questions will only lead to a better understanding of the topic, so why not ask as many as you can think of? If someone has agreed to speak with you for an hour, they are obviously willing to share their insight or opinion. If you've got them in front of you, there is no reason not to ask questions that will clarify a certain point or simply provide

additional information you can use in your story. No one expects you to know everything about the topic you are reporting on; there will always be uncertainties and grey areas.

As questions to improve the clarity of those areas.

4 *Research the company you are reporting on*

When you are assigned to cover a story, conduct some general background research on the company before you begin gathering specific information about the issue. If you do this, you will be well-prepared and informed when you begin browsing for information and conducting interviews. You'll then know enough about the subject to recognize relevant information and ask intelligent and insightful question. You'll also be able to use this background information as a foundation of your piece.

5 *Look to experienced journalists in the field*

Nothing can replace experience. Find journalists in your field that you respect and feel have established themselves in the journalism world. Read their work and look to them for advice or suggestions if possible. Find a style that you find particularly interesting and try to mimic it. After some hands-on experience, you will be able to develop your own style based on what you've read and what you'd like to incorporate into your own work.

INTERNSHIP OPPORTUNITIES

As an upcoming journalist entering the field, you'll want to have some hands-on experience before applying for your first professional job. Employers will be impressed when they see real-world experience at the top of your resume. They will also feel more comfortable hiring you because you have proof you've been delegated responsibilities and hopefully handled them in an effective, efficient, and professional manner.

Experience may come in the form of a basic, entry-level job; however, it is more likely you will work as an intern for at least one year before entering the work force. Although often unpaid, internships will serve to give you the experience necessary to succeed in your first job and subsequent years. You will also be given the opportunity to familiarize yourself with the business. You will learn a great deal through observation, projects, and assignments. After completion of the internship, you will hopefully be comfortable with how a company operates, how to work in teams, organize, plan, and complete tasks, etc.

Below is the contact information for several top hedge fund companies; excellent internship opportunities to take advantage of. All of the companies are fairly large and extremely successful. Therefore, you'll gain insight into how a large and successful company does what it does. Don't limit yourself to how many internships you apply for. Keep your options open by applying to all that interest you.

BP Capital Management

Telephone: 214.265.4165

Fax: 214.750.0216

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BP Capital Management, L.P.
8117 Preston Road

Suite 260
Dallas, TX 75225

SAC Capital Advisors

stacey.denke@sac.com

S.A.C. Capital Advisors, LLC
Attn: Human Resources/Recruitment
72 Cummings Point Road
Stamford, CT 06902

Renaissance Technologies Corporation

careers@rentec.com

Renaissance Technologies LLC
800 Third Avenue
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Tudor Investment Corporation

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careers@tudor.com

Tudor Investment Corporation
450 Park Avenue, 24th Floor
New York, NY 10022

Cerberus Capital Management

Telephone: 212.891.2100

media@cerberuscapital.com

Cerberus Capital Management, L.P.
299 Park Avenue
New York, NY 10171

Citadel Investments

collegerecruiting@citadelgroup.com

College Recruiting
Citadel Investment Group, LLC
131 South Dearborn Street
Chicago, IL 60603

ESL Investments

Telephone: 203.861.4600

ESL Investments Inc.

200 Greenwich Avenue
Greenwich, CT 06830

SLS Capital Management

Telephone: 212.537.3600

Fax: 212.537.3550

SLS Capital Management, LLC
140 West 57th Street
New York, New York 10019

JC Flowers & Co.

Telephone: 212.404.6804

Fax: 646.349.4890

JC Flowers & Co., LLC
717 Fifth Avenue
26th Floor
New York, NY 10022

BEST HEDGE FUND ARTICLES

How to Set Up Your Own Hedge Fund

By Hannah Terhune, JD LLM (Taxation, New York University)

Traders and money managers often dream about one day running their own hedge fund, managing large sums of money, and competing head to head with the world's top traders. For many, though, this dream remains unfulfilled, because they do not know where to begin and do not want to squander their resources "reinventing the wheel."

The first step toward setting up a hedge fund is getting a better grasp of what exactly a hedge fund is. Hedge funds often are compared to registered investment companies, unregistered investment pools, venture capital funds, private equity funds, and commodity pools. Although all of these investment vehicles are similar in that they accept investors' money and generally invest it on a collective basis, they also have characteristics that distinguish them from hedge funds and they generally are not categorized as hedge funds.

Unlike a mutual fund, a hedge fund is not registered as an investment company under the Investment Company Act and interest in the fund is not sold in a registered public offering. Hedge funds can trade in a wider range of assets than a mutual fund. Portfolios of hedge funds may include fixed income securities, currencies, exchange traded futures, over-the-counter derivatives, futures contracts, commodity options and other non-securities investments.

As the name indicates, hedge funds initially specialized in hedging and arbitrage strategies. When Alfred Winslow Jones established the first hedge fund as a private partnership in 1949, that fund invested in equities and used leverage and short selling to "hedge" the portfolio's exposure to movements of the corporate equity markets. Although hedge funds today often employ far more elaborate hedging strategies, it is also true that some hedge funds simply use traditional, long-only equity strategies.

Hedge funds are also well known for their fee structure, which compensates the adviser based upon a percentage of the fund's capital gains and capital appreciation. Advisors at hedge funds often invest significant amounts of their own money into the funds that they manage.

Although they still represent a relatively small portion of the U.S. financial markets, hedge funds are a rapidly growing investment vehicle. The growth is fueled primarily by the increased interest of institutional investors such as pension plans, endowments, and foundations seeking to diversify their portfolios with investments in vehicles that feature absolute return strategies – flexible investment strategies that hedge fund advisers use to pursue positive returns in both declining and rising securities markets, while generally attempting to protect investment principal. In addition, funds of hedge funds, which invest substantially all of their assets in other hedge funds, have also fueled this growth. This growth has not escaped the notice of the SEC, which has expressed concerns about the potential impact of hedge funds on the securities markets.

Analysis

“How to Set up Your Own Hedge Fund,” an article by Hannah Terhune, provides a decent analysis of a hedge fund; what it constitutes, and how it works. Terhune begins by using an analogy to help readers better understand what exactly constitutes a hedge fund. She says hedge funds can often be compared to “registered investment companies, unregistered investment pools, venture capital funds, private equity funds, and commodity pools.” A hedge fund, like these examples, takes an investor’s money and will invest it in a variety of industries.

Terhune then makes the distinction between a hedge fund and a mutual fund, an extremely important distinction to make because the two are very similar. Hedge funds are not registered under the Investment Company Act and offer more flexible infrastructures and opportunities to generate a higher profit.

Terhune closes in saying hedge funds are “a rapidly growing investment vehicle.”

This article is beneficial because it defines the basic meaning of the term hedge fund. It doesn’t go into great depth about how hedge funds operate, but it does include several key points a new journalist assigned to hedge funds would need to know.

Start-ups turning to hedge fund

By Stephen Heuser, Globe Staff

When the private biotechnology company Microbia Inc. closed a \$75 million round of funding in February, investors sat up and took notice. Not only because the Cambridge firm had just landed the biggest local round of biotechnology venture financing in two years, but also because a large chunk of the money came from hedge funds.

A month later, its Cambridge neighbor, Merrimack Pharmaceuticals Inc., reported its own large financing round -- \$65 million, also driven by hedge funds.

Hedge funds are unregistered money-management operations that typically make a wide range of global investments. Their arrival in the delicate ecosystem of local biotechnology investing sent a shudder through the venture-capital community, whose firms not only finance, but also grow, counsel, and help staff young companies, all in exchange for the potential to cash out on the companies that succeed.

"People just sat up and said, my God, those are investment opportunities that would traditionally be done by venture capitalists," said Michael Greeley, managing partner of IDG Ventures, a Boston venture-capital firm.

With hedge funds are setting their sights on young companies before they go public, some venture capitalists worry about losing out on potential returns, especially in the more secure later stages of private financing.

The National Venture Capital Association doesn't keep records of hedge-fund involvement in private-company finance, but says that anecdotal evidence suggests it is increasing.

"The trend is something that people are interested in," said Emily Mendell, vice president of the National Venture Capital Association. "Clearly, this is a phenomenon that's beginning to occur more and more."

To some, the arrival of hedge-fund money seems like a logical, even inevitable development. With more than \$1 trillion under management nationwide, hedge funds are always on the hunt for a wider range of investment vehicles. In biotech, they are meeting an industry always hungry for money.

"Biotech companies have an almost infinite appetite for capital, and many are staying private longer now -- the public markets haven't been as friendly to biotechs lately," said Laura Hodges Taylor, a hedge-fund lawyer at Goodwin Procter in Boston.

Private biotech companies without a drug on the market have recently found themselves in a financing crunch: A successful public stock offering depends on having data from late-stage human trials of their drugs, which can cost tens of millions of dollars.

And that's on top of the tens of millions already invested by venture capitalists. Without a favorable initial public offering market that offers the quick prospect of raising \$50 million, \$100 million or more, the companies have to look elsewhere for cash.

"We're at a state where the financing market is going through great change and upheaval," said Robert Mulroy, chief executive of Merrimack Pharmaceuticals. "Traditionally venture capitalists were the ones who brought the company through the IPO, but that's a model that venture capitalists aren't making a lot of money on right now."

Merrimack is developing a protein in goat milk that could treat autoimmune diseases. To fund its human-testing program, Mulroy asked investment bankers at Credit Suisse Group to play matchmaker with a number of hedge funds.

In what he calls a “mini-road show,” Mulroy flew from city to city with his chief financial officer and head of research, showing a 45-minute PowerPoint presentation to potential backers.

In the end, Merrimack's \$65 million fund-raising round was about 60 percent financed by so-called “public investors” -- hedge funds and mutual funds that traditionally focus on trading public company stock, including Jennison Associates, Modal Capital, TPG-Axon Capital, and Noonday Asset Management .

In contrast to the public image of hedge funds as being run by secretive financiers chasing exotic investment strategies, Mulroy said, the hedge-fund analysts were deeply informed about the industry and easy to deal with.

“People were able to determine in one meeting whether they were interested or not, and that clarity of focus was great,” he said. “In the traditional venture-capital process you tend to work with somebody for months. They tend to hire consultants and look at everything about you.”

At Microbia, which is running clinical trials on two potential drugs, chief executive Peter Hecht saw a strategic value in adding hedge-fund investors to his current mix of financial backers, which include highly regarded venture firms such as Polaris Venture Partners and Venrock Associates.

Hecht said he considers his recent \$75 million finance round not only an injection of cash, but a way to boost Microbia's profile with hedge funds and mutual funds that may invest in a future IPO.

“When we did this round, we really wanted to use this financing to introduce the company to some of the best public investors,” he said.

Hecht's venture backers say that so far they aren't worried about rubbing shoulders with hedge fund managers. The funds haven't taken any seats on the board, and made up less than half of the last financing.

“There's always a risk there, but you end up trying to mitigate it by choosing people who appear to be good partners,” said Bryan Roberts, a Venrock partner who sits on Microbia's board of directors.

For large funds, some investors point to another reason for the deals: Taking a private position may be a way to hedge other investments in drug companies whose top products are threatened by new competitors.

The California biotechnology company FibroGen Inc. , for example, is trying to develop a pill that would compete with the multi-billion-dollar anemia drugs made by Amgen Inc. If FibroGen succeeds, Amgen stock could suffer, but taking an early position in the biotech company would offer some protection for companies with large holdings of Amgen. Last year FibroGen closed a \$100 million funding round fueled by hedge-fund and mutual-fund money. An early investment in a young research-driven company also gives big funds an advantage over competitors who may also consider investing in a future stock offering.

“These investors are actually able to come, kick the tires on it, watch it work,” said Merrimack's Mulroy.

“If there's a company coming along that might be public in a year or two, they can really get inside of it. Whether they invest in it or not, they'll know the story better than anyone else.”

Analysis

“Start-ups turning to hedge fund,” written by Steven Heuser, emphasizes the growing popularity and effectiveness of hedge funds. He cites two examples to back up his ideas. Microbia Inc. and Merrimack Pharmaceuticals Inc. recently obtained \$75 million and \$65 million respectively in financing, the majority of which was generated by hedge funds. These two statistics introduced numerous companies to the hedge fund industry. ““Clearly, this is a phenomenon that's beginning to occur more and more,”” Emily Mendell said, as reported by Heuser.

Heuser then proceeds to inform the reader that hedge funds have begun to interact with and serve biotech companies; hedge funds “are meeting an industry always hungry for money.” This speaks to the current exponential expansion of hedge funds. Companies that need to raise \$50 or \$100 million are beginning to look to hedge funds for that money.

This article not only emphasizes the point that hedge funds are becoming more and more popular, but also that they are constantly expanding into new industries and therefore increasing their customer base. It has very good flow and short, to-the-point paragraphs which help the reader gather and organize the presented information.

Rolling in it

Why investors should kick up a fuss about hedge-fund fees

From The Economist print edition

Recent weeks have shown how alluring a berth on that bounteous marina is. Morgan Stanley, a big investment bank, has bought stakes in three groups, Avenue Capital, FrontPoint Partners and Lansdowne, at a total cost believed to be more than \$1 billion. Two former American treasury secretaries, Larry Summers and John Snow, have discovered hedge-fund lucre, as has another former Washingtonian, Chelsea Clinton, the ex-president's daughter. In the hope of tapping new sources of capital, Fortress Investment Group, which offers both hedge funds and private equity, has announced plans to float 10% of itself on America's stock market. Marshall Wace, a British manager, has launched a €1.5 billion (\$1.9 billion) hedge fund on the Euronext exchange in Amsterdam.

But the flurry of activity raises two big questions. First, everyone knows that hedge-fund managers are rolling in it; some made more than \$1 billion last year. Investment banks also earn a big slug of their income from lending to, and trading for, hedge funds. Most new investors back the sector via funds-of-funds, which collect a second layer of fees. If industry insiders make so much from the industry, can that leave anything for the clients?

Second, if investment banks are buying or launching hedge funds, the sector itself is expanding into loan-making and private equity, and mutual funds are adopting hedge-fund techniques, is there any sense in talking of a separate hedge-fund industry anymore? Asset management, once so tribal, is becoming a giant melting-pot.

The long and the short of it

Already it is fiendishly hard to define a hedge fund. At best, one can outline a few key characteristics. Hedge funds are private pools of capital that are lightly regulated, often borrow to enhance returns and are partly paid on the basis of performance. The term "hedge" (from hedging your bets) derives from the aim of making money whether a market goes up or down. This ability to bet on falling prices ("going short") distinguishes them from traditional "long-only" funds, which profit only if prices rise.

Enthusiasts say the greater variety of tools at their disposal gives them an edge. Stanley Fink of Man Investments, one of the largest hedge-fund groups, uses the analogy of having a full range of golf clubs rather than just one.

That flexibility appeals to pension funds. In the 1990s, many pension funds made far too big a bet on equities, a gamble that went disastrously wrong in the 2000-02 bear market. As pension funds sank into deficit, they started looking for alternative sources of return.

Hence the astonishing growth of hedge funds. In 1990, according to estimates by Hedge Fund Research (HFR), a data provider, there were just 610 funds controlling some \$39 billion of assets. By 2000 there were 3,873 funds with \$490 billion. The latest estimate is over 9,000 funds, with \$1.3 trillion at their disposal.

Moving into hedge funds has been part of a deliberate diversification into "alternative assets", a category that includes property, commodities and private-equity investment. Mark Anson, chief executive of Hermes, a British group that manages pension assets for BT, a telecoms operator, says hedge funds offer a source of return that does not necessarily move in step with share and bond markets.

A genuinely diversified source of return is the one “free lunch” available from the investment world. If it can be found, it will improve the trade-off between risk and return. That is why investors are willing to pay the high fees (often 2% annually plus a fifth of all profits) that hedge funds charge.

And the hedge funds have done a good job of protecting investors. The worst year for the sector, according to HFR, was 2002, when the index fell 1.5%; there has been only one month since 1990 when the sector lost more than 3.5%.

But Narayan Naik of the London Business School gives warning that hedge funds might be more closely correlated with other investments than they appear to be. He says pension funds have been advised to move into hedge funds by consultants, who are impressed by hedge funds' favorable risk-return trade-offs.

The problem, says Mr. Naik, is that the consultants had to rely on past data. And those were very flattering. During the 1990s, most asset prices soared. The industry was dominated by “global macro” managers such as George Soros who took big bets on currencies and stock markets, using borrowed money. Measured returns for the sector were boosted by survivor bias: failed funds ceased to be counted in the indices.

In recent years, returns have been much less impressive (see chart). In the 1990s, the compound annual return from HFR's composite index was 18.3%; since 2000, that return has been just 7.5%. Not surprisingly, that has disappointed some investors. A global survey by Mercer Investment Consulting found that only 23% of pension funds were satisfied with their fund-of-hedge-funds investments.

Alpha pay for beta performance

Of course, it has been much more difficult to make money in markets since the dotcom bubble burst in 2000. But that only shows hedge-fund returns are not just dependent on skill (“alpha”, in the jargon) but on general market movements (“beta”). Mr. Naik says that hedge-fund returns have been increasingly based on beta in recent years. Hedge-fund managers have every incentive to take this route, since they take a percentage of all profits, however they are derived. But beta can be obtained at very low cost via index-tracking funds. Why pay hedge-fund prices?

The smart (or big) money has already responded to these problems. ABP of the Netherlands is the largest pension fund in Europe with €200 billion of assets. Edwina Neal, its chief investment officer, says the group has around 3% of its investments in hedge funds, making it one of the industry's biggest backers. That power gives ABP the ability to place greater emphasis on performance, to control fees and to insist on hurdle rates before paying them. ABP also looks for specialist hedge funds whose returns are not closely related to the rest of its portfolio.

Such investments might seem to be an example of a “free lunch”. But can everyone dine from this table? Uncorrelated hedge funds tend to have niche strategies and there is a limit to the amount they can invest. Too much money tends to dilute returns, as happened to one sector (convertible arbitrage) in 2005. Furthermore, niche strategies tend to invest in illiquid assets, such as exotic options. Assets of this sort appear to move differently from mainstream shares and bonds because their price moves infrequently. But when bad news hits stock markets, illiquid assets can be hit extremely hard. Correlations increase substantially.

Hedge-fund managers are well aware of the limits of specializing in niche products. Some simply close to new investors after reaching their target for funds under management. But

others want to keep growing. A number develop private-equity or banking characteristics, by providing capital directly to companies or making loans. Some are diversifying into multi-strategy funds, which invest across a range of sectors. Others have started long-only funds, thereby opening up a much bigger market. As Peter Harrison of MPC investors, a fund manager, says: "There's \$1 trillion or so in hedge funds but \$90 trillion of long-only money and that's the big prize."

While hedge funds are expanding, traditional groups are moving into their territory, too. Some, like Morgan Stanley, are doing so by acquisition; others, such as Barclays Global Investors and Gartmore, have built up in-house franchises. A change in mutual-fund rules applicable across the EU, known as UCITS III, has meant that hedge-fund practices are also available to retail investors. Products known as 130/30 funds (which can go 130% long and 30% short) offer some of the flexibility of a hedge fund—albeit with some of the fees, too. So it may well be that the increasingly blurry distinction between hedge-fund managers and less racy traditional managers will become obsolete. "In three to four years' time, we may not be talking about hedge funds as an element of the portfolio but about putting money into equities and then backing good managers, however they operate," remarks Nadja Pinnavaia of Goldman Sachs Asset Management.

As the industry matures, it is becoming more concentrated. Hedge Fund Intelligence, a data provider, reckons the top 20 funds control a third of the industry's assets. The funds of funds, such as those at Man Group and UBS, are the largest. Among the direct managers, HFI says there are four American groups with more than \$20 billion of hedge-fund assets (Goldman Sachs, JPMorgan Chase, Bridgewater and D.E. Shaw) and another four with over \$15 billion (Farallon Capital Management, Och-Ziff Capital, Barclays Global Investors and ESL Investments).

The growing power of the most popular hedge-fund managers means some are extending the initial lock-up and notice periods before investors can withdraw their money. This might be fine until disaster strikes. And disasters do happen—such as the recent 65% loss in one month by Amaranth Advisors, a Connecticut-based hedge fund whose top trader gambled on natural-gas prices. But the image of hedge funds as a high-stakes casino is rather unfair; most hedge funds quietly give up through lack of interest rather than collapsing spectacularly.

Hedge funds may have acted to stabilize markets by increasing liquidity and by betting on both falling and rising prices. It is surely no coincidence that the recent low volatility of equity, bond and currency markets has coincided with hedge funds' explosive growth.

Hedge funds' boosters and detractors both exaggerate. Hedge funds are not the panacea for every pension-fund deficit, nor are they the cause of every ill in the financial markets. They are like a fast-growing adolescent, sometimes boisterous, sometimes clumsy but still developing. Where skill does exist, clients will probably find that managers get the bulk of the benefits. But as long as clients blindly believe in that skill, they will pay for the hedge funds' yachts.

Analysis

"Rolling in it: Why investors should kick up a fuss about hedge-fund fees," published by *The Economist*, makes a very interesting point regarding hedge funds. The article questions whether or not clients are making any money relative to the \$1 billion hedge fund managers and

investment banks are making. If managers are obtaining such exorbitant amounts of income, and investment banks are making a killing lending to, and trading for hedge funds, is there really any money left for the clients to make?

The article also asks whether or not a hedge fund industry needs to be distinguished from other financial asset management industries anymore. Investment banks are buying or starting their own hedge funds, and mutual funds are beginning to utilize hedge fund techniques. All of the traditional methods of asset management are changing to new strategies and techniques very similar to those used by hedge funds.

The Economist provides a specific example of why companies choose to invest so much money in hedge funds. ABP of the Netherlands, a European pension firm, controls roughly €200 billion in assets. The CEO of ABP, Edwina Neal, said the company invests about three percent of its investments in hedge funds so ABP can focus the majority of its effort on improving its performance. In this sense, ABP delegates some of its responsibilities to hedge funds and pays them to complete them.

The article also addresses the fact that many financial management companies, like Morgan Stanley, Barclays Global Investors, and Gartmore, are adopting hedge fund strategies and tactics.

The Economist does a fantastic job handling such a big topic. Although the article is lengthy, it is backed up with extensive research and thorough analysis.

The risk business

Many think that hedge funds are to blame for the turmoil in the world's financial markets. They are not.

From The Economist print edition

The planned opening session at a big hedge-fund gathering in Bermuda this week had been entitled: How to Handle the Flood of Assets Coming In. A late substitution was announced: Crisis and Corrections: Implications for Hedge Funds. How quickly the mood has swung in financial markets, from carefree bullishness to deep pessimism. Hedge funds, those bold adventurers of the financial markets, have lost pots of money as markets have fallen sharply, which is bad enough. Now, to add insult to injury, they are getting much of the blame for the very turmoil that brought them low.

They make good whipping boys. It is convenient that they tend to be run by colorful and conspicuous types—men such as George Soros, who (sometimes) runs the Quantum group of funds, or Julian Robertson, who runs Tiger, the biggest hedge fund of all. They shroud their operations in secrecy and are blamed for manipulating markets from Hong Kong to London. Critics accuse them of being nothing more than rapacious speculators, borrowing heavily to beef up their bets. This enormous amount of footloose money, it is argued, can bend the financial markets out of shape—and it has.

Mr. Robertson was in fact the star turn at the Bermuda conference (run by MAR/Hedge, a newsletter). Only days before he spoke, via satellite link, Tiger had lost nearly \$2 billion, more than a tenth of its assets, in 24 hours. The cause was the dollar's plunge against the yen; some currency traders blamed Tiger for worsening that fall as it fled from the currency. Hedge funds had also been blamed, a day earlier, when Treasury bond prices jumped unexpectedly sharply. Any big swing in any market is now routinely attributed to this or that hedge fund getting in or out.

Market-makers' fears that they will find themselves on the wrong end of such trades has made them fearful of all trading. This has been partly responsible for the widening of bid-ask spreads (the difference between the price a trader is willing to pay for a security and the price at which he offers to sell it). This in turn signals the drying up of liquidity in many financial markets.

There is even a particular villain, an exemplary specimen, on which critics can focus: Long-Term Capital Management (LTCM). Founded by, among others, two Nobel laureates in economics, a former vice-chairman of the Federal Reserve, and one of Wall Street's most successful bond-traders, Long-Term Capital nearly went bust in September. It was saved only when the Federal Reserve organized its rescue by many of the banks that had previously lent it billions of dollars. According to Alan Greenspan, the Fed's chairman, if the fund had failed it could have inflicted serious damage on many market participants, and "could potentially have impaired the economies of many nations, including our own." Although its rescue has staved off the worst consequences, rumors that LTCM is busy unwinding its huge positions continue to spook the markets.

Other hedge funds are already paying a price for the fund's demise. Banks, blamed for lending too generously to LTCM and its fellow hedge funds before, are now being more miserly. Some hedge funds have had credit-lines cut; most are having to stump up far more collateral as security against loans. Investors are starting to withdraw money—and redemptions are expected to soar as the financial year ends. Hardest hit, ironically, are the largish group of hedge funds that

have performed well of late, for the simple reason that they have the cash. To cap it all, there are now calls in Congress and elsewhere for the funds to be regulated.

Analysis

This article takes a very interesting approach to the hedge fund industry. Instead of reporting on the industries operation, or success, *The Economist* brings a unique and frequently unseen issue with hedge funds; they are being blamed for market fluctuation and depreciation. The article explains that since hedge fund managers are “nothing more than rapacious speculators, borrowing heavily to beef up their bets,” it is very easy to find the hedge fund industry at fault; however, this is not the case.

An example cited by the article involves Tiger, the biggest hedge fund in the world. The hedge fund giant lost \$2 billion in assets over the course of 24 hours. This resulted from the value of the dollar decreasing with respect to the value of the yen. Around the same time, a different unexpected phenomenon occurred as Treasury bond prices went through the roof. Both of these examples had a major impact on the market during the time. The article argues that whenever there is a big swing in the market, people blame hedge funds.

This thought has scared some investors to the point of freezing their investments because they don’t want to “find themselves on the wrong end of such trades.” This is ultimately hurting the hedge fund business, causing liquidity to dry up, meaning assets can’t be converted into cash without loss as quickly. Therefore, this notion is causing a lot of damage and inflicting a lot of pain among hedge fund organizations and the hedge fund industry.

Again, *The Economist* does a good job reporting on a controversial issue. Look at the first paragraph for the figurative speech the author uses to bring life to the topic.

Looking for trouble

Regulators have hedge funds in their sights again, as the once-exclusive industry draws in a wider range of investors.

From The Economist print edition

It looks like being a long stretch for the G8 at Gleneagles next week. There is poverty, to be made history. There is global warming, to be reversed. And, perhaps, there is capitalism, to be kept safe from hedge funds. Germany's chancellor, Gerhard Schröder, has said that he wants to discuss regulating these funds in an international context, though his peers appear less keen.

For the Germans, the hedge-fund issue is not so much about preserving global financial stability or protecting investors—the usual reasons given when talking of tightening supervision of these fast-growing, lightly-regulated investment pools—as about safeguarding beleaguered German companies. It was a shock when, in mid-May, a small London hedge fund, The Children's Investment Fund, forced the departure of the chairman and chief executive of Deutsche Börse, a German exchange operator. Many asked whether it was right that a minority shareholder—hedge fund or not—should wield so much power. Now Hans Eichel, Germany's minister of finance, and his officials would like to internationalize the debate.

Outside Germany, that debate is more about hedge funds' transparency than about hyperactive corporate governance. The funds, which manage assets worth \$1 trillion and account for between a third and a half of all trading on the New York and London stock markets, have become increasingly important as a source of liquidity to the markets and as a factor in the health of the banks with which they do business. Hedge funds, or beasts that look a lot like them, are also becoming more accessible to retail *hoi polloi*.

Last week Britain's Financial Services Authority (FSA) published two discussion papers to encourage debate on whether its light regulatory touch needs to be firmer. The FSA suggested looking harder at "high-impact" funds, market conduct and the bits of banks that finance hedge funds—but no new red tape. It said that the world's watchdogs should work together, to avoid driving hedge funds into less-regulated havens. And it drew attention to moves within Europe to shape widely divergent regulatory regimes into a single corral.

Across the pond, America's Securities and Exchange Commission (SEC) is wrestling with its own problems, especially a controversial new rule requiring hedge-fund managers to register from next year. Heading its way is a lawsuit that challenges both the legal and the procedural bases on which it was adopted. Brought by Phillip Goldstein, a hedge-fund investment adviser, the suit got a boost last week when the courts told the SEC to reconsider another rule, on mutual funds. On Wednesday June 29th, at William Donaldson's last session in the chair, the SEC voted, in an acrimonious 3-2 split, to press ahead.

Two things have dragged hedge funds into the regulatory spotlight recently. The first is the tumble that some took in April and May, when problems in credit derivatives and convertible bonds produced serious red ink. A number have since decided to fold—including the Cromwell Fund of London's Bailey Coates, America's Marin Capital Partners and Aman Capital Global Fund in Singapore. But the broader contagion that some were predicting did not occur, and hedge-fund returns are bound upwards once again.

The other, more important development is the broadening of hedge funds' investor base. Once the preserve of the super-rich and of cutting-edge foundations such as Yale University's endowment fund, they have become increasingly popular with two new groups: the well-off who

are not super-rich—with around \$1m-5m in assets—and institutional investors anxious both to improve wan returns and to invest in uncorrelated assets.

Barry Colvin of Tremont Capital, an American research firm, says that institutions today account for well over half of all new hedge-fund inflows, up from a quarter a few years ago. Greenwich Associates, another, found that 32% of European institutions invested in hedge funds last year, up from 23% in 2003; and 43% said that they wanted to boost the figure in 2005.

The rumor that BT's pension fund was considering putting up to 10% of its £30 billion (\$54 billion) of assets into alternative investments such as hedge funds made headlines in Britain this week. CalPERS, which looks after the pensions of California's public employees, recently raised its hedge-fund allocation to \$2 billion. Corporate pension funds in America are also dipping cautious toes into the water, says Roger Smith of Greenwich Associates, a consulting firm.

Analysis

“Looking for trouble,” an article from *The Economist*, investigates how foreign countries view hedge funds. For example, Germans view hedge funds as nuisances and annoyances. They feel hedge funds compromise the operation and importance of German companies by threatening to take their customers and their business. Recently, The Children's Investment Fund, a London-based hedge fund, cost the CEO of Deutsche Börse his job. Other countries like England are investigating the workings of hedge funds but are not currently doing anything to restrict their operation.

The article then cites two things about hedge funds that have recently been under investigation: the downfall hedge funds took in April and May, and hedge funds' expanding customer and investment base. Hedge funds are now attracting new investors; not only those that are successful and wealthy, but also those that are well-off but not necessarily wealthy (\$1 million to \$5 million in assets).

Again, the article emphasizes that more and more companies are investing in hedge funds. British Telecom, a UK telecommunications operator, allocated \$54 million to hedge funds

while CalPERS, a California-based pension management company, allocated \$2 billion to hedge funds.

This article is useful because it puts all of the technicalities of hedge funds into context and into real-world situations that are easier to relate to.

HEDGE FUND LEAD EXAMPLES

Swiss Re Buys 15% of Brevan Howard

By Bill McIntosh, Senior Financial Correspondent

The deal making merry-go-round where financial services giants buy into hedge fund operators has jumped back into motion with Swiss Re, one of the world's biggest insurance groups, paying an undisclosed amount for a 15% stake in Brevan Howard Asset Management LLP, a leading British global macro firm.

"This is a non-controlling interest and has no impact on the management of the Brevan Howard group," the firm said in a curt statement announcing the deal late Friday [Oct. 5]. A spokesman for Swiss Re said the insurance firm would have no role in operations or fund management at Brevan Howard.

Analysis

The first paragraph of this article is set up as a basic summary lead, meaning the five W's are used in one sentence. The "whos" of the lead are Swiss Re and Brevan Howard Asset Management LLP, the "what" is the amount of money paid by Swiss Re for a percentage of the Brevan Howard group, the "where" is the worldwide market place and the "when" is October 5 (found in the second paragraph). Howard uses figurative language in the first sentence, specifically a metaphor, when he says "the deal making merry-go-round where financial services giants buy into hedge fund operators has jumped back into motion." Merry-go-rounds obviously can't make deals, but Howard uses this metaphor to help the reader visualize what is happening.

The article appears very credible and doesn't show any bias or opinion. It states exactly what happened, and supports the statement with a quote from the firm (the "who"). The lead is very effective because it is straight forward, contains all the necessary facts and thoroughly explains the situation.

Merrill Won't Invest in Dow Kim's New HF

By Emma Trincal, Senior Financial Correspondent

Merrill Lynch was going to invest in the new hedge fund of one of its top investment bankers, Dow Kim, but the bank recently changed its mind. The decision was made amid pessimistic predictions from several Wall Street analysts that Merrill's third-quarter results could take a hit because of mortgage losses. Meanwhile, Merrill's head of fixed income, Osman Semerci, left the bank on Wednesday [Oct. 3].

Mr. Kim, the former head of global markets sales and trading at Merrill, had announced in May that he would leave the bank by the end of the year to form a new hedge fund. The departure was amicable. At the time, senior management said Merrill was expected to invest in the new shop.

Analysis

This is another example of a basic summary news lead because it reveals all the essential information in the first paragraph. The “who” is Merrill Lynch and the new hedge fund of one of its top investment bankers, the “what” is the investment Merrill Lynch was going to make, the “where” is again the worldwide investment market and the when is unknown. The only date given relates to the day Osman Semerci left Merrill Lynch. The lead seems to be credible because it simply outlines several steps of an event. Overall, the lead is effective, however, the journalist could have included why the bank recently chose not to invest in the new hedge fund at the end of the first sentence. This would avoid all potential confusion by presenting all of the essential facts in the lead sentence.

Hedge Funds Come on Strong in September: Hennessee

By Jacob Bunge, Financial Correspondent

By hitching their wagon to a charging equity market, hedge funds seem to have pulled themselves out of the credit market morass that bogged down some funds' performance over the summer and swallowed a few funds entirely. Hennessee Group LLC reported on Monday [Oct. 8] that its Hennessee Hedge Fund Index was up 2.26% in September as liquidity improved and stocks soared.

The Dow Jones Industrial Average has had a particularly hot run, shooting up more than 8% from mid-August through the end of September while charting record highs; it returned 4.03% in September and was up 11.48% year-to-date. The Nasdaq Composite Index, meanwhile, earned 4.05% for the month, and the Standard & Poor's 500 stock index earned 3.58%. Year-to-date through September those equity market measures returned 11.85% and 7.67%, respectively. The Lehman Aggregate Bond Index rose 0.76%, and gained 3.85% this year through September.

Analysis

The first paragraph is an effective lead because it is short, to the point, only contains two sentences, and uses metaphorical phrasing that catches the attention of the reader. The “whos” are hedge funds in general and a specific hedge fund, the Hennessee Group LLC. The “what” is that hedge funds are doing well financially compared to previous years, the “where” is the worldwide market of investments and the “when” is October 8. Bunge utilizes a metaphor in the opening sentence to both grab the reader’s attention and provide some sort of creative image.

“By hitching their wagon to a charging equity market, hedge funds seem to have pulled themselves out of the credit market morass that bogged down some funds' performance over the summer and swallowed a few funds entirely.”

The second sentence of the first paragraph provides an example of a company that has “pulled themselves out of the credit market”, thus supporting the opening sentence. The second paragraph goes on to cite four additional examples that again support the journalist’s opening claim.

Managers Quit Absolute Capital

By Bill McIntosh, Senior Financial Correspondent

Two portfolio managers of the Absolute Germany Fund run by Absolute Capital Management Holdings Ltd. have left the firm. Frank Siebrecht and Stefan Heieck resigned citing "personal reasons," AbCap said in a statement on its web site.

AbCap was thrown into crisis in September when co-founder and co-Chief Investment Officer Florian Homm resigned unexpectedly. It was the catalyst for waves of redemption requests and a 90% fall in the firm's AIM-listed shares.

Analysis

This is a great example of a delayed identification lead, a lead that fails to include an important piece of information. However, instead of identifying the two portfolio managers in the second paragraph, the journalist does it in the second sentence. The “whos” are the portfolio managers that left the firm, Frank Siebrecht and Stefan Heieck, the “what” is that Siebrecht and Heieck have left Absolute Capital Management Holdings Ltd., the “where” is wherever the firm is located and the “when” is when the managers left the firm (which is not specified in the lead). The second sentence of the first paragraph explains the two managers left the firm for “personal reasons,” and the second paragraph explains a crisis Absolute Capital recently faced (another possible reason why the two managers resigned). Again, this is effective because it provides the reader with all the necessary and important information in the first few sentences, which ultimately sets up the rest of the article. This is what you must strive for; a lead that is concise and informs the reader of the important news before he or she reads the details in the body of the article.

Start-ups turning to hedge funds

By Stephen Heuser, Globe Staff

When the private biotechnology company Microbia Inc. closed a \$75 million round of funding in February, investors sat up and took notice. Not only because the Cambridge firm had just landed the biggest local round of biotechnology venture financing in two years, but also because a large chunk of the money came from hedge funds.

A month later, its Cambridge neighbor, Merrimack Pharmaceuticals Inc., reported its own large financing round -- \$65 million, also driven by hedge funds.

Analysis

This lead is interesting, because it doesn't give the reader all the necessary information in the first sentence. The first sentence says the company generated \$75 million in February while the second sentence explains how they did it. The "who" is the company Microbia Inc., the "what" is the \$75 million the company generated, the "where" is most likely in Cambridge and the "when" is in February. This lead gives the reader the big news in the first sentence (that Microbia Inc. profited \$75 million), and then the reason why in the second sentence (they landed a huge financing deal and utilized hedge funds), which in retrospect, is fairly effective. However, this specific lead may not always capture as large of an audience as a more creative, metaphorical lead would.

Bear Stearns hires execs for hedge fund business

By Reuters

Bear Stearns Cos Inc said on Tuesday it snared three executives from rival companies to expand services to hedge fund clients.

Bear Stearns' reputation took a hit this summer when two of its hedge funds collapsed on wrong-way bets tied to risky subprime mortgages. The New York investment bank said Douglas Stern, a Morgan Stanley veteran, will help manage Bear's prime brokerage sales team, focusing on the firm's largest hedge fund customers.

Analysis

The “who” of this lead is Bear Stearns Cos Inc, the “what” is that the company obtained three executives, the “where” isn’t clear (most likely wherever Bear Stearns Cos Inc is located) and the “when” is on Tuesday. This is an example of a typical basic lead. It combines most of the five W’s into one sentence and it is fewer than 35 words (21).

The problem with this lead is that it doesn’t particularly grab the reader’s attention. Maybe this is because a company hiring three executives isn’t necessarily exciting news, or possibly because the journalist didn’t craft the story in an appealing way. This is an example of a lead you do not want to mimic; it doesn’t bring any life to the news and definitely does not entice readers to continue reading the article.

SOURCES OF INFORMATION: DOMINANT ORGANIZATIONS

1 *BP Capital Management*

BP Capital Management is a private investment firm whose slogan is “Investing With Energy,” according to their company web page. BP Capital primarily invests in companies in the energy industry and stocks of public companies in the energy sector. With a minimum investment of \$5 million, BP Capital Management, lead by Boone Pickens (the founder of Mesa Petroleum, worldwide producer of natural gas and oil), is able to generate annual returns north of \$1.5 billion. This would be a great company to look at because it has been so dominant in the hedge fund industry the past few decades.

2 *SAC Capital Advisors*

SAC Capital is group of hedge funds which service different fields and utilize different strategies. The group is currently worth more than \$14 billion, according to http://en.wikipedia.org/wiki/SAC_Capital_Partners. Lead by Steven A. Cohen, “the most powerful trader on Wall Street you’ve never heard of,” SAC Capital is a substantial force in the hedge fund industry and accounts for about 20 million shares per day. The company has invested in just about every industry including the medical industry, energy industry, the news and media industry and the consumer electronics industry. Last year, the company brought in over \$1 billion in profit. The organization annually generates annual returns anywhere from \$900 million to \$1 billion.

3 *Renaissance Technologies Corporation*

Renaissance Technologies is a company primarily responsible for managing hedge funds. It is commonly recognized as one of “the most consistently successful hedge funds,” said http://en.wikipedia.org/wiki/Renaissance_Technologies. It controls roughly \$27 million in equity and is well-known for its extensive research and skill in predicting what markets will do. The corporation has correctly foreseen the price changes in commodities, currencies and stocks. Renaissance Technologies focuses on mathematical and economical analysis which helps it find market trends and statistics.

4 *Tudor Investment Corporation*

Tudor Investments is “an internationally recognized, \$15 billion in assets, diversified investment management firm,” the company’s web page said. Over the years, it has taken a very active role in the investment banking and trading disciplines. It primarily deals with global equity, currency, debt and commodities. The company is known to invest in technology companies and provide entrepreneurs with the capital necessary to develop a successful company. Tudor Investments is responsible for \$800 million to \$900 million in annual returns.

5 *Cerberus Capital Management*

Cerberus Capital is one of the most dominant and successful private investment firms in the industry. The company focuses on “providing financial resources and operations expertise to help transform undervalued companies into industry leaders for long-term success and value creation,” www.cerberuscapital.com said. The well-known private

equity firm prides itself on unique long-term investment strategies and value creation. It associates itself with and invests in all types of companies including those in the pharmaceuticals, government services, real estate, transportation, retail, automotive and construction industries; however, its primary focus is in companies near bankruptcy. The company generated returns between \$500 million to \$600 million every year.

SOURCES OF INFORMATION: ELITE PERFORMERS

(information obtained from <http://nymag.com/news/features/2007/hedgefunds/30342/>)

1 *Steven Cohen*

Cohen, currently the CEO of SAC Capital Advisors, is the “most talked-about hedge fund manager.” As a trader responsible for a \$12 billion company, Cohen is highly respected in the hedge fund industry and considered a pioneer of his time. Look to Cohen for pointers on leadership skills and taking the initiative as he is a self-made billionaire.

2 *Stephen Feinberg*

The founder and chief executive of Cerberus Capital Management, Feinberg is coined as “a quiet, almost antisocial guy who is a machine at investing,” according to www.nymag.com. “He’s morphing Cerberus from being a distressed hedge fund into almost a buyout firm.” Feinberg has transformed Cerberus Capital into a \$19.15 billion company. He should be admired for his perseverance and dedication as he grew up in a poor family and dedicated his college career to preparing him for the work force.

3 *David Tepper*

Tepper, worth an estimated \$1.5 billion, controls Appaloosa Management with a net worth of \$5.3 billion. Before founding Appaloosa, Tepper served as a powerful executive at Goldman Sachs. He has done extensive philanthropic work and is a great example of someone who struggled to meet the financial requirements in school, but is doing very well now.

4 *Edward Lampert*

Known as the “greatest investor of his generation,” Edward Lampert of ESL Investments, an \$18 billion company, is worth an astounding \$4.5 billion. Among other characteristics, Lampert is best summed up in one word: wealth. He was the first Wall Street financial manager to generate an annual income of over \$1 billion, and he’s been raking in the money ever since.

5 *Kenneth Griffin*

Worth \$1.7 billion, Griffin serves as the CEO of the Citadel Investment Group, a \$13.5 billion organization. Some joke in saying “Griffin started trading in his Harvard dorm room at Cabot House.” Citadel now controls \$16 billion in assets and accounts for one percent to three percent of all trading in New York and Tokyo.

6 *Michael Novogratz*

Novogratz, currently working as a president of the Fortress Investment Group, has an estimated net worth of \$2.3 billion. His leadership skills as a helicopter pilot in the U.S. Army helped him land his first job at Goldman Sachs, and then propelled him to the executive position he holds today.

SOURCES OF INFORMATION: ESTABLISHED JOURNALISTS

1 *Duff McDonald*

McDonald, a freelance writer currently living in New York, writes for several periodicals including *Vanity Fair*, *New York Magazine*, *WIRED*, *Best Life*, and *Harpers & Queen*, explained www.huffingtonpost.com. McDonald, like many of the elite performers mentioned on the previous pages, attended the Wharton School of the University of Pennsylvania, and then landed his first job at Goldman Sachs. Before becoming a journalist, McDonald worked as an investment banker. Therefore, he has an exceptional background in business; a background that permits him to write well-informed, insightful, and technically accurate articles related to the business world, specifically the hedge fund industry. McDonald is a great source. If you can't get in contact with him, read a few of his articles.

2 *Tim Harford*

Harford is not only known as a journalist, but also as an English economist and author of three books: *The Market For Aid*, *The Undercover Economist*, and *The Logic of Life*, according to http://en.wikipedia.org/wiki/Tim_Harford. He also serves as the presenter of *Trust Me*, a BBC television series. Harford's main focus is writing for *The Financial Times* where he is responsible for a weekly column title "Dear Economist." Clearly, Harford has the experience and credentials to be a great journalist; he's educated, informed, well-spoken, and has a creative, appealing style. Look to Harford and his work

for guidance on how to incorporate background information and research into a well-constructed article.

3 *Daniel Gross*

Author of four books (Forbes Greatest Business Stories of All Time, Bull Run: Walla Street, the Democrats, and the New Politics of Personal Finance, Generations of Corning: 150 Years in the Life of a Global Corporation, 1851-2001, and POP!), Gross has incredible sources of information to utilize in his work. Any questions related to the business world should be directed his way.

4 *Hugo Lindgren*

Although he does dabble in journalistic writing when time prevails, Lindgren is primarily known as an editor. “Hugo is one of the best magazine editors I’ve ever worked with, a really dynamic thinker who is smart on several dimensions,” Stephen J. Dubner, an opinion writer for *The New York Times*, said. Lindgren will therefore be able to provide you with answers and suggestions from the perspective of a writer as well as an editor. This will serve as an extremely valuable resource because editors think differently than writers and will provide unique insight.

ONLINE RESOURCES

1 *www.magnum.com*

This web address will take you to the site for Magnum Funds, Top Performing Hedge Funds and Funds of Hedge Funds. The site was a great source because it was very easy to navigate and provided great introductory information. A list of helpful links can be found organized on the left side of the site's homepage. The first link, "What is a Hedge Fund," provides very basic, yet essential information about hedge funds. This first page outlines the operation and purpose of a hedge fund, the hedge fund industry, different hedge fund styles and a few simple benefits of hedge funds. The remaining links will bring you to information about various topics like "Key Characteristics of Hedge Funds," "Facts About the Hedge Fund Industry," "Popular Misconception," and "Hedge Fund Styles." This site will provide you with a fabulous introduction to the hedge fund.

2 *www.sec.gov*

The U.S. Securities and Exchange Commission website is a very useful online source to information about hedge funds. Navigate to a section of the website called "Hedging Your Bets: A Heads Up on Hedge Funds and Funds of Hedge Funds," and you will find a different approach to the hedge fund industry. Although the page reviews what exactly constitutes a hedge fund and a fund of hedge funds, it includes a substantial amount of information to prepare one to invest in a hedge fund or purchase one. Although this site may seem more appropriate for the potential investor or buyer, it is important you understand the complete operations of a hedge fund before reporting on them.

3 *www.hedgeworld.com*

Hedge World is a fantastic resource because it organizes all of the local, nationwide and global news regarding hedge funds into one place. The homepage features an “All Headlines” section that includes current news headlines related to hedge funds from all different regions. Four sub-categories on the left (United States/Americas, Europe, Asia/Australia, and International) allow you to narrow down the search and find an article from a specific region. The site is user-friendly and again is great because it can link you to so many articles from so many regions of the world. Definitely view this site on a regular basis to ensure you’re up to date with today’s news and events regarding the hedge fund industry.

4 *www.thehfa.com*

The Hedge Fund Association is a similar resource to Hedge World, serving as an organized database of articles related to the hedge fund industry. On the left of the homepage, under the “information” tab, you will find an “About Hedge Funds” link as well as links to press releases, hedge fund articles, and recent headlines. The articles featured in these last three links are organized based on publication date which makes a specific article fairly easy to find. The Hedge Fund Association isn’t quite as informative and loaded with information as Hedge World; however it is a valuable source that should be explored.

5 *www.hedgefund.net*

HedgeFund.net (HFN) is an online source that provides similar information to Hedge World and The Hedge Fund Association (recent news, feature articles); however, its

primary focus is on the analysis of funds, investor tools, and manager services. Across the top of the homepage, you will find links to hedge fund organization rankings, example portfolios, and watch lists (companies about to make a breakthrough or experience a financial crisis). This site is unique because it provides insight into the hedge fund industry through statistics and real-world examples. Definitely take advantage of HFN.

6 *www.nymag.com*

Although unexpected, New York Magazine proved to be a great source for information about hedge funds. From the homepage, navigate to the “News & Features” section and you will see an article titled “Behind the Hedge” accompanied by a man peeking over a green bush, hence the title of the article. “Behind the Hedge” includes several cleverly-worded subcategories that provide specific information about different aspects of hedge funds. For example, “The Running of the Hedgehogs” includes information on the booming financial investment industry, “The Smartest, the Meanest, the Best” ranks the top hedge fund performers, and “Why Fees Won’t Come Down” speaks to why hedge funds don’t have to worry about high prices. This source provides a lot of information about many different topics; definitely a must see.

7 *www.hedgeco.net*

HedgeCo.Net, The Leading Free Online Hedge Fund Information Portal, is an all-in-one online resource; it includes a little about numerous topics. The homepage has links organized on the right that will bring you to hedge fund data (rankings, yellow pages), news, and basic information about hedge funds (the investment industry, glossary of

terms, and FAQs). The site also features a “Related Sites” tab that will link you to one of four different hedge fund web pages affiliated with HedgeCo.Net.

APPENDIX A: GLOSSARY

(information obtained from www.powerhomebiz.com and www.economics.about.com)

A

Account receivable - Money owed to your business for goods or services that have been delivered but not yet paid for.

Arbitrage opportunity - The opportunity to buy an asset at a low price then immediately selling it on a different market for a higher price.

Asset - Anything of worth that is owned. Accounts receivable are an asset.

B

Bear market - A market condition in which the prices of securities are falling or are expected to fall.

Bond - A fixed interest financial asset issued by governments, companies, banks, public utilities and other large entities.

Bull market - A financial market of a certain group of securities in which prices are rising or are expected to rise.

C

Commodity - Anything for which there is demand, but which is supplied without qualitative differentiation across a given market.

D

Derivative - a security whose price is dependent upon or derived from one or more underlying assets.

E

Equity - A financial investment in a business. An equity investment carries with it a share of ownership of the business, a stake in the profits and a say in how it is managed. Equity is calculated by subtracting the liabilities of the business from the assets of the business.

H

Hedge fund - An aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

L

Leverage - A method of corporate funding in which a higher proportion of funds is raised through borrowing than share issue.

Liquidity - The ability of a business to meet its financial responsibilities. The degree of readiness with which assets can be converted into cash without loss.

M

Mutual fund - A financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective.

P

Portfolio - The entire collection of financial assets held by an investor.

R

Return - The profit or loss derived from an investment.

Risk - A potential negative impact to an asset or some characteristic of value that may arise from some present process or future event.

S

Short selling - The selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller.

Stock - An ownership share in a corporation; another name for a share. Another definition would be accumulated merchandise.

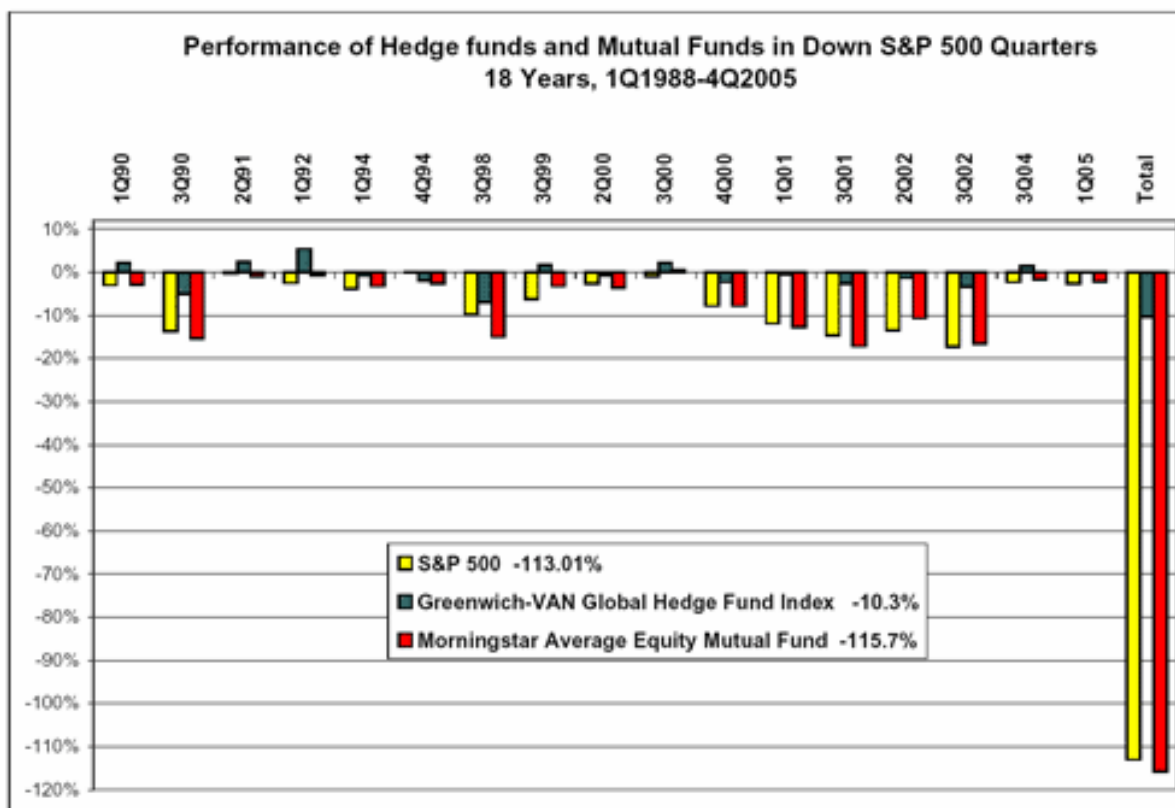
V

Venture capital - Money used to finance new companies or projects, especially those with high earning potential and high risk.

Volatility - A statistical measure of the dispersion of returns for a given security or market index.

APPENDIX B: GRAPHS

Appendix B1



<http://www.magnum.com/hedgefunds/advantages.asp>

