HEDGE FUND
MARKETING ASSOCIATION

Select Page

Hedge Fund Strategies

There are many different hedge fund investment strategies available to hedge fund managers. Choosing a strategy (or strategies) that will produce the highest returns within the acceptable range of risk requires significant experience, financial expertise and extensive tools.

Here are some of the most common hedge fund strategies:

- **Convertible Arbitrage** – the fund manager typically holds a convertible bond long, and sells short the underlying common stock. Returns come from bond coupon payments and the short rebate. There is a cash outflow as well, to cover dividend payments on the short positions.
- **Dedicated Short Bias –** the goal is to earn returns by maintaining net short exposure (more dollars short than long) in securities. The number of dedicated short sellers varies based on market condition. It is common to see a "short bias", and still hold some securities long—a hedged position.
- **Distressed Securities** – an event-driven strategy, focusing on companies in financial trouble. Positions in debt or in equity can be both long and short. The event might be a bankruptcy, a distressed sale or some other form of corporate event for exploitation.
- **Emerging Markets** – involves equity or debt investing in emerging markets around the world. Each market is unique and has its own rules. For example, some countries lack derivative markets or simply prohibit short selling. Hedging is more difficult (or impossible) in markets like these, so most investing here is long-only.
- **Equity Market Neutral –** the equity market neutral manager takes both long and short positions in stocks while minimizing exposure to the systematic risk of the market (i.e., a beta of zero is desired). The long and short sides are equal in dollar amount ("dollar neutral"). Returns are generated by the spread between the longs and the shorts + the short rebate + the difference between dividends earned on long positions and dividends paid on short positions. Quantitative models are often employed to automate these strategies.

- **Event-Driven –** focuses on opportunities in corporate events like a merger, acquisition, bankruptcy, reorganization, or simply some bad news about a company. An example would be those who sold Enron short at the right time.
- **Fixed Income Arbitrage –** seeks to profit from price discrepancies in related fixed income instruments. A manager might buy long a bond he thinks is undervalued and sell short a similar bond he thinks is overvalued. One goal is to neutralize interest rate risk.
- **Fund of Funds –** involves active management of a portfolio of hedge funds. For more information on hedge funds of funds. (see Hedge Fund of Funds)
- **Global Macro –**Leveraged directional bets are made using many of the world's financial instruments (stocks, bonds, commodities, currencies, derivatives, etc.). Some bets can be huge and this strategy allows great flexibility.
- **Long/Short Equity –** picks both long and short stock candidates, but does not attempt to be market-neutral. The manager may switch from net long to net short, but most long/short equity strategies have a long bias. Investors see this strategy as a way to generate returns in a rising market while reducing volatility.
- **Managed Futures Strategy** – invests in financial and commodities futures markets. Directional bets are made with long and/or short positions. The managers are called Commodity Trading Advisors (CTAs).
- **Statistical Arbitrage –** known as "stat arb", this strategy uses quantitative models to predict price discrepancies in securities. Market neutrality is often used. The models often employ some mean reversion assumptions.

Recently from the Blog

How Will Hedge Funds Perform in the Wake of Trump's Election?

SEC Boasts a Banner Year but Hedge Funds – Not So Much

Millions in Defense but Not One Penny for Tribute

Hedge Funds Stumble after Six Years of Steady Growth

Can Time Heal the Hedge Fund Industry's Wounds?

Resources

Advertise

Cheat Sheet

Compensation

Compliance

Due Diligence

Glossary

Hedge Fund Certifications

Hedge Fund Definition

Hedge Fund Events

Hedge Fund Index

Hedge Fund Lists

Hedge Fund Research

Other Hedge Fund Resources

Service Providers

Starting a Hedge Fund

Third Party Marketing

Want to Write for Us?

About us

Since 2001, the Hedge Fund Marketing Association was designed for hedge fund professionals, financial advisors, investment consultants, and other professionals who are involved in the placement or distribution of hedge funds.

Here, the investment professional can find helpful information, education, data and resources, as well as learn best practices for building his business. Learn more

Our Office

2370 E. Stadium Blvd
Suite 540
Ann Arbor, MI 48104

Resources

- Advertise
- Cheat Sheet
- Compensation
- Compliance
- Due Diligence
- Glossary
- Hedge Fund Certifications
- Hedge Fund Definition