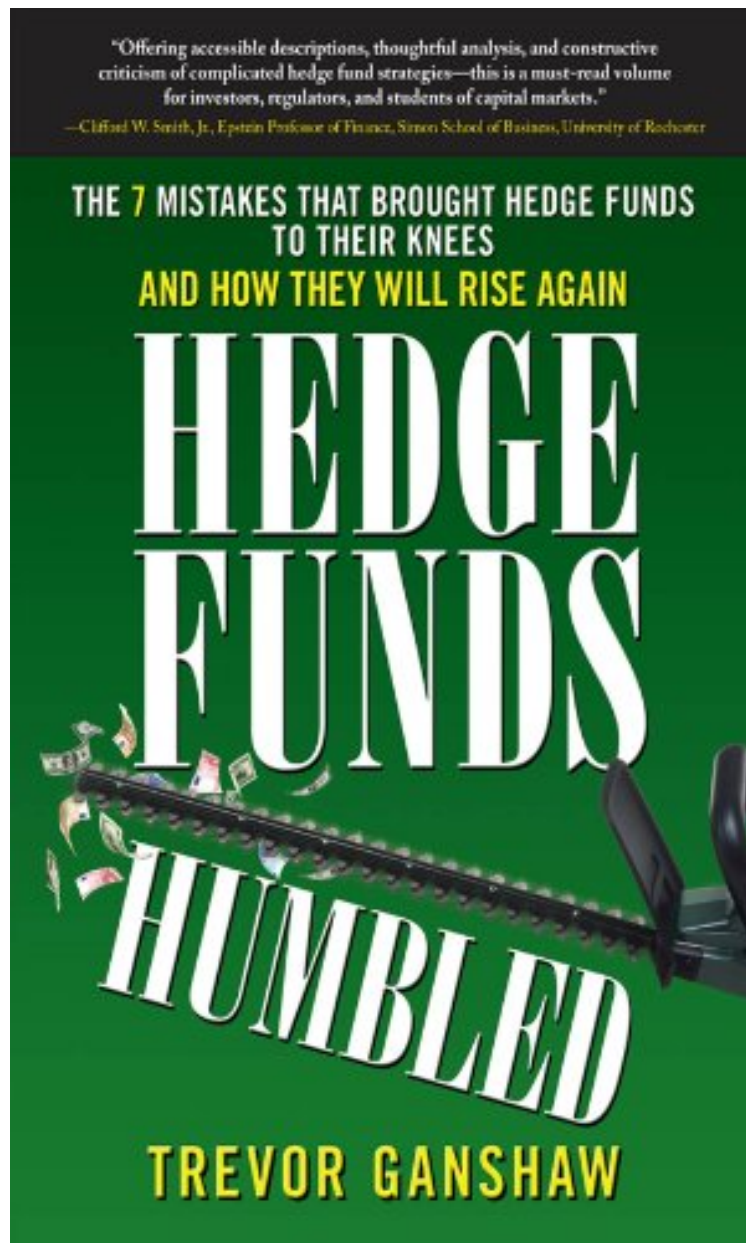


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Hedge Funds, Humbled: The 7 Mistakes That Brought Hedge Funds to Their Knees and How They Will Rise Again

Trevor Ganshaw

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praised Hedge Funds, Humbled: The 7 Mistakes That Brought Hedge Funds to Their Knees and How They Will Rise Again:

0 of 0 people found the following review helpful. The industry suffered its worst performance everBy amazedI haven't read the book or intend to; nor here to defend the HF industry but the author is writing is an inflammatory story where there is none:"Then came 2008.The industry suffered its worst performance ever, losing \$600 billion or roughly 20% in a single year. Multibilliondollar hedge funds collapsed overnight, epic frauds were revealed, and assets plummeted as spooked investors scrambled to get their money back."The SP500 dropped 41.25 pct (or more than double the drop at the median Hedge Fund). Enough saidOf course HFs borrow from their brokers for their leveraged market-neutral bets. Where is the money coming from otherwise?Anyway, if you are unsophisticated about financial markets and want to tell inflammatory stories in cocktail parties, by all means, buy it, memorize some paragraphs and spit them at people.1 of 1 people found the following review helpful. Real insiderBy Chiu-ying WongIf you are a veteran investor and know the basic operation of the capital market and investment products, but have been puzzled by the popularity and success of hedge funds, this book is for you. This is not one of those fluff-filled books written by journalists who could only give readers anecdotal quotes of what this famous person said and then what the other well known person said. No, it gives you numbers and figures to explain how hedge funds work. For example, you hear often that hedge funds use a lot of leverage to make money, but how? where do they get their money from? The book tells you about prime brokerage accounts, and how a small return from mundane investment strategies are rolled into significant gains, even when hedging is taken into account. I used to wonder why people would adopt strategies that buy one stock (or bond or derivative) and sell another in the same industry at the same time, because the strategy would remove returns from broad industry and market movements and would thus be slim. It turns out that such hedge funds were just using borrowed money to multiply the tiny return. But then who would fund such opaque operations? Banks that are flooded with cash. It was a scenario that did not seem realistic until I read the numbers provided by the author.Its coverage of the Bear Stearn hedge funds was also more in depth in terms of trading record. I have read books about the Bear Stearn story, such as "House of Cards", but only in this book that I learned about the mistakes that the fund managers made in hedging their exposure. So the funds' managers were initially not lying when they claimed that their funds were fully hedged, because the assumptions they made about the hedging instruments were historically correct, but broke down in the 2008 crisis.Even the coverage on the Madoff's scam, which I had read many articles about in Bloomberg and Wall Street journal, has some interesting angle. The role of feeder funds was more clearly described, and pertinent sections of their marketing materials were reprinted to show how Madoff and his supporters crafted the scam.My only complaint about the book is the amount of content. It has 226 pages, but printed in large fonts. There must be more hedge fund stories to tell.

The fall and rise of a trillion-dollar industry Just three years ago, hedge funds were at the top of the investment world. Years of unparalleled growth had pushed assets to nearly \$3 trillion. Leverage was used so aggressively that total long and short investments approached an astonishing \$10 trillion. Thousands of new funds had sprouted in every corner of the market, and managers, enjoying an almost unimaginable pool of fees, were dubbed the new "masters of the universe." Then came 2008.The industry suffered its worst performance ever, losing \$600 billion or roughly 20% in a single year. Multibilliondollar hedge funds collapsed overnight, epic frauds were revealed, and assets plummeted as spooked investors scrambled to get their money back. The near collapse of the industry is one of the most dramatic stories of the global economic meltdown. It's also among the most instructive; because hedge funds are still alive and, if managed wisely, will emerge stronger than ever in the coming years. In Hedge Funds Humbled, industry insider Trevor Ganshaw provides a detailed primer of the industry and explains how the people who earned more than \$100 billion in fees during their short but happy heyday planted the seeds of their own destruction. He paints a vivid picture of how the industry leaders' major mistakes destroyed hundreds of billions of investor capital; Ganshaw calls them the "seven deadly sins" of the hedge fund industry: Out-of-control leverage Inadequate risk management Flawed fee structures Overcrowded strategies The Peter Principle of too much capital Capital instability Fraud, enabled by lax controls Ganshaw examines the future of the industry and shows investors what to look for and what to avoid. There's still money to be made in hedge funds and, in his estimation, the industry is poised for a comeback. "As all good hedge fund managers know, greed is good," he writes. "Humility, it seems, may now be an essential part of keeping it that way." More dramatic than fiction, Hedge Funds Humbled is a timely work that provides a critical look at an industry gone bad;and an optimistic look at its future.

From the Back CoverThe fall and rise of a trillion-dollar industry Among the crown jewels of the investment world, hedge funds lost more than \$600 billion in 2008. Still, says industry insider Trevor Ganshaw, a partner at a multi-strategy hedge fund, these investments continue to offer terrific investing opportunities. Hedge Funds Humbled explores the seven mistakes that brought hedge funds to their knees including excessive leverage, poor risk

management, illiquid investments, and fraud. It then offers an outlook on the future of the hedge fund industry and the opportunities it still has to offer. *Hedge Funds Humbled* explains: How The hedge fund industry operates Why it was nearly destroyed almost overnight What potential investors should look for to make profits and avoid disaster Ganshaw offers invaluable advice on how to spot the good funds and identify those with high fraud potential. He argues that as the hedge fund herd thins out, quality investment opportunities will increase, and we will see much-needed improvements in risk management and fund governance. Relating one of the most dramatic financial stories in recent history, *Hedge Funds Humbled* is an eye-opening look at an industry that may have yet to reveal its true potential. About the Author Trevor Ganshaw is a partner at a multistrategy hedge fund in New York City. His articles have been published in the *Journal of Applied Corporate Finance*.