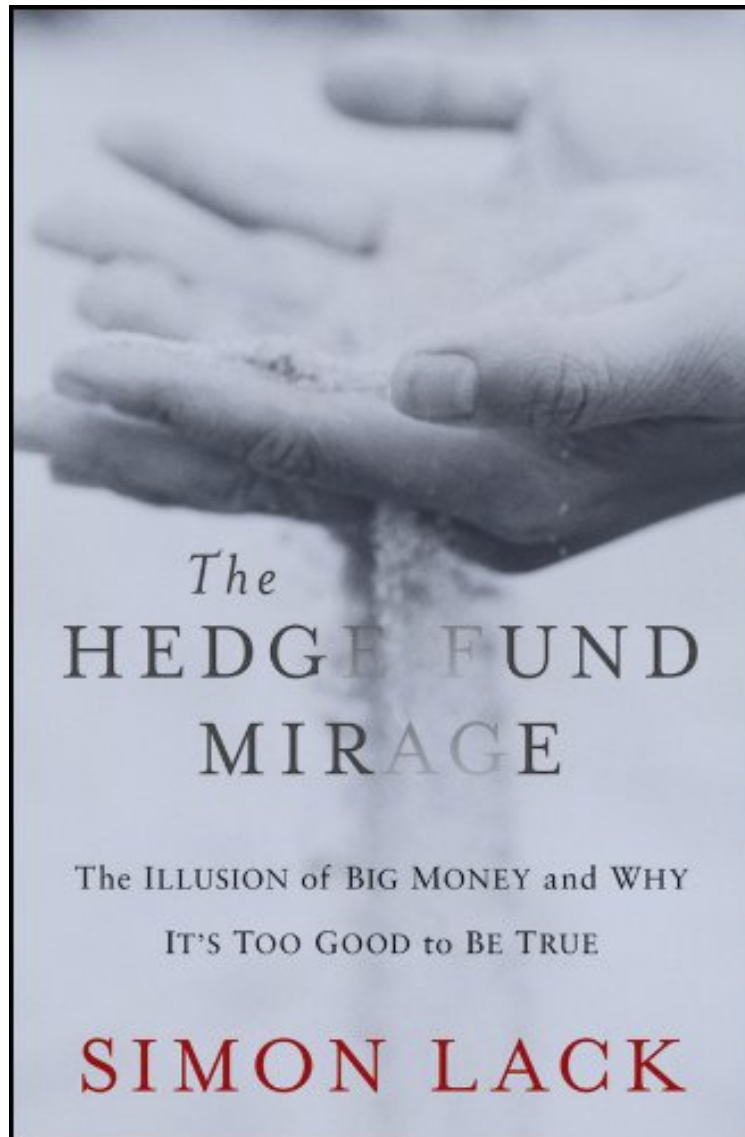


(Free and download) The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True

The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True

Simon A. Lack

*audiobook / *ebooks / Download PDF / ePub / DOC*



DOWNLOAD



READ ONLINE

#603093 in eBooks 2011-11-30 2011-11-30 File Name: B006ISIAFA | File size: 21.Mb

Simon A. Lack : The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True:

0 of 0 people found the following review helpful. They are charged with investing money in such a way that in the future it will give the participants better returns that they coBy Ian MannAuthor Simon Lack managed a unit inside J.P. Morgan that provided seed funding for hedge funds from 2001 to 2006. This entailed getting under the hood of the

industry to find promising but undiscovered hedge funds in which they could invest. Consider the plight of a pension fund manager. They are charged with investing money in such a way that in the future it will give the participants better returns than they could have received from investing in Government bonds. These returns would have to include the costs involved in handling this money. This is a feat that requires exceptional investment skill based on deep understanding and insight into finance and economics. For these reasons pension fund managers invest in hedge funds with the expectation of yields higher than those on safer investments. Hedge funds are aggressively managed portfolios of investments that use advanced investment strategies such as leveraged, long, short and derivative positions for the purpose of generating abnormally high returns. Hedge funds are not a new vehicle, the first fund was founded in 1949, but the recent growth of this industry has been staggering. In 1998 Lack estimates hedge funds had assets under management of about \$140 billion and almost \$1.7 trillion by 2010. The "mirage" referred to in the book's title is the false tendency to count on hedge funds to deliver for the investors and to deliver for the investors in fair proportion to what it delivered for the hedge fund managers. In fact, Lack argues very cogently, it is the operators of hedge funds that get rich and in some cases, obscenely rich, but not the customers. He titles one of his chapters: "Where are the customers' yachts?" Lack also argues very cogently that hedge funds have not delivered on their purpose. If all the money that has ever been invested in hedge funds had been invested instead in boringly safe, but reliable, Treasury Bills, the results would have been twice as good. In 2008, instead of protecting wealth in these troubled times, the hedge fund industry lost more money than all the profits it had generated in the previous 10 years. 2011 was another bad year for the industry which was down by 6.4%, and yet the assets under management have climbed to \$2 trillion. How can this be?! Hedge funds are most often set up as private investment partnerships that are open to a limited number of sophisticated investors and are therefore not required to report their activities to the SEC. This is why it requires Lack's proficiency with numbers and his insight into the industry to give a clear picture through the mirage. What he reveals is an industry where the returns and risks are biased in favour of the hedge fund manager and where there is surprising frequent fraud. There are many ways in which one could report the performance of hedge funds and it is clearly in the interests of the industry to report these results in the most favourable terms. The typical way of reporting is on a time-weighted basis which reflects the performance of the hedge funds over time. This allows for the early, small funds, which produced the best returns, to mask the poor performance of the large funds. However, if you report performance based on a money-weighted basis, the amount of money in the funds, a very different, but more accurate picture emerges. From 1998 to 2010 the industry returned only 2.1% annualized on a money-weighted basis, not 7.3% as indicated when the time-weighted basis is used! Calculated this way, during this period hedge fund managers earned \$379 billion in fees, while the investors earned only \$70 billion in profits or 84% versus 16%. This is achieved because hedge fund operators take incentive fees in addition to operating fees with no downside if they perform poorly and lose investors' money. If the situation is this bad, why have we been thinking it was so good? Clearly a larger part of the answer lies in the way some operators report their results and how they are able to get away with reporting only when they have racked up a good score. However, there are also inherent flaws in the system. It is far easier to find great investments in small quantities than it is in large quantities — they are great because they are so much better than all the rest. As a hedge fund does well through these rare finds, it is able to attract larger amounts of money for which it now has to find even more rare finds, which gets ever harder to achieve. During the 1990s when hedge fund investors did well it was in part because there were relatively few of them. The truly outstanding hedge fund operators like George Soros and John Paulson have built famously huge fortunes, the reward for truly outstanding performance. The problem is that a few dozen have produced most of investors' returns, and as with actively managed unit trusts, it is difficult to identify the strong performers in advance. Investing in new hedge funds involves a bet of millions of dollars on the stock-picking ability of an individual and there is always the ever present danger of latching onto a fraudster like Bernie Madoff. Lack lays the blame for the lopsided rewards of the hedge fund industry largely on the supposedly sophisticated investors, such as pension funds, and their consultants. "Star-struck investors have too often equated enormous financial success amongst managers with high returns for clients; Faulty or weak analysis, performance chasing, shortage of scepticism, and a desire to be associated with winners without proper regard for terms have all caused the sorry result." This is a book that will inform professionals and fascinate anyone interested in investment. Readability Light ---+ Serious Insights High +---- Low Practical High ---+ Low Ian Mann of Gateways consults internationally on leadership and strategy 0 of 0 people found the following review helpful. Worth Reading.. By S.T.S Very interesting book regarding the fallacy of the investment wizards. Interesting to read that the investment banks made money from hedge funds by seeding them for future percentage of fees, rather than bankrolling a "wizard". Had the chance to listen to and meet Simon Lack at an event and found him to be charming and genuinely interested in helping investors. 2 of 4 people found the following review helpful. Interesting nuggets, but main crux of book is flawed By Jackson St.C Having worked in finance for a number of years I was curious about this book and the author's audacious claims about the industry's lack of long term value-add. He's got some very good points about investing in younger funds vs. old and the trade-offs you make with each (research shows that in general you have to choose between greater stability or performance.) The author tends to repeat his points over and over again and does a fair amount of name dropping

for the apparent purpose of appearing smart and well-connected. All this is somewhat entertaining and educational until we focus on his main argument- That HFs have taken 80%+ of the industry's excess profits relative to their clients' gains. The math doesn't seem to add up if I'm reading it correctly. He seems to take NET HF returns and then apply fees to those returns to demonstrate how large a cut the industry is taking. This grossly overstates the size of the fees relative to client returns and makes it hard to believe the point he is trying to make (though he has a point that fee structures and payouts need to be changed in a manner more favorable to clients.) Also, his big question that he thinks will awaken the masses to the charade that is HF investing is, "Can you name a rich HF investor- NOT manager?" This is a diversionary tactic. Let's say a HF manages \$1B and has a 20% year, his 20 will net him \$60M in total fees thus making him "rich"- but someone(s) had to give him that \$1B to begin with- the already rich. The vast majority of individual HF investors are ALREADY rich and most very private. Since they're not the ones making the big bets or blowing up they don't get on the cover of the WSJ, nor do they want to. The Bass or Ziff family has seeded and invested in a number of HF Private Equity firms and have done very well for doing so. So this "great conundrum" isn't so strange after all. In the end, it's a good book with some interesting and salient points to help those who may invest in HFs, but it's nowhere near the HF Mitchell Report Mr. Lack thinks it is.

The dismal truth about hedge funds and how investors can get a greater share of the profits Shocking but true: if all the money that's ever been invested in hedge funds had been in treasury bills, the results would have been twice as good. Although hedge fund managers have earned some great fortunes, investors as a group have done quite poorly, particularly in recent years. Plagued by high fees, complex legal structures, poor disclosure, and return chasing, investors confront surprisingly meager results. Drawing on an insider's view of industry growth during the 1990s, a time when hedge fund investors did well in part because there were relatively few of them, *The Hedge Fund Mirage* chronicles the early days of hedge fund investing before institutions got into the game and goes on to describe the seeding business, a specialized area in which investors provide venture capital-type funding to promising but undiscovered hedge funds. Today's investors need to do better, and this book highlights the many subtle and not-so-subtle ways that the returns and risks are biased in favor of the hedge fund manager, and how investors and allocators can redress the imbalance. The surprising frequency of fraud, highlighted with several examples that the author was able to avoid through solid due diligence, industry contacts, and some luck Why new and emerging hedge fund managers are where generally better returns are to be found, because most capital invested is steered towards apparently safer but less profitable large, established funds rather than smaller managers that evoke the more profitable 1990s Hedge fund investors have had it hard in recent years, but *The Hedge Fund Mirage* is here to change that, by turning the tables on conventional wisdom and putting the hedge fund investor back on top.

"Simon Lack, a hedge fund veteran exposes some unforeseen and uncomfortable truths about the industry in his new book." (*Hedge Fund Net*, January 2012) "...a cautionary tale from one who knows just about all the tricks...an easy, largely fun and certainly instructive read" (*Financial World*, February 2012) "Devastating little book.... His conclusions will make uncomfortable reading for many self-styled 'masters of the universe'.... This book should be required reading for pension fund trustees." (Jonathan Ford, *Financial Times*, 19th February 2012) From the Inside Flap Sure, hedge funds have produced some of the greatest fortunes in recent years, but the shocking reality is that investors would have made more putting their money into treasury bills instead. And while hedge funds have proved to be serious moneymakers for those that manage them, investors themselves rarely reap the benefits. In *The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True*, hedge fund expert Simon Lack blows the lid off the secret world of this class of investments, teaching you everything you need to know to maximize your own returns. Drawing on an insider's view of hedge fund growth during the 1990s, a time when investors in the field did well in part because there were relatively few of them, *The Hedge Fund Mirage* chronicles the history of the hedge fund, highlighting the many subtle and not-so-subtle ways that returns and risks are biased in favor of the fund manager, and how investors and allocators can redress this imbalance. Packed with information about the industry and what's wrong with it, the book steers you away from the traps that befall so many investors. Full of helpful pointers on how to really get the most out of your hedge fund investments, it encourages using new and emerging hedge fund managers whose returns are generally better, negotiating more assertively for stronger investor rights, and warns anyone putting their money in the hands of a manager to demand complete transparency at all times. Hedge fund investors have had it tough in recent years, but that doesn't mean that there isn't money to be made. As the success of hedge fund managers shows, opportunities are there. The dilemma for investors is figuring out how to identify managers you can trust and learning the techniques to keep more of the money generated using your capital. *The Hedge Fund Mirage* is here to help, turning the tables on conventional industry wisdom to put you, the investor, back in charge. From the Back Cover Praise for *The HEDGE FUND MIRAGE* "We all know of hedge funds that vaulted to the sky, only to crash to earth. Simon Lack demonstrates, astonishingly, that the industry itself has repeated that dismal story of early promise, followed by an infusion of funds, followed by a numbing reversion to the mean. The upshot: for the average investor in the average fund, hedge funds have proved a false hope. And Lack has the numbers to

prove it. Written by a canny industry insider, *The Hedge Fund Mirage* takes a fresh look at an industry that is too often viewed in reverent and adoring terms. Not least, Lack draws attention to the fact that the average hedge fund manager—in terms of their sky-high fees—has done far better than the average investor. This book will give investors the tools to evaluate whether their own fund is up to the mark." —Roger Lowenstein, author, *When Genius Failed* "The Hedge Fund Mirage is required reading for hedge fund investors. Mr. Lack's wealth of experience combined with his deep commitment to candid, even-handed dialogue provides a truly unique and important perspective on the hedge fund industry. In a world where published hedge fund research typically relies on unreliable, difficult to validate data, or second-hand accounts culled from public media, Mr. Lack has created a highly entertaining book with firsthand, insightful analysis that will serve to rapidly move the reader up the learning curve." —Andrew Weisman, Chief Executive Officer, WR Platform Advisors LP "Simon Lack makes a critically important distinction between time-weighted returns and dollar-weighted returns generally, and specifically how they can differ significantly in the hedge fund space. Based on his extensive experience, the book is a treasure of subtle—as well as not-so-subtle—cautions, considerations, and advice which every hedge fund investor should comprehend." —Michael Hennessy, cofounder, Morgan Creek Capital Management "Controversial and enlightening, Simon Lack delivers the real deal on alternative asset investing. Caveat emptor to those who fail to read this, whether you're a hedge fund manager, private investor, or journalist." —Lesley Daniels Webster, Principal, Daniels Webster Capital Advisors, retired EVP, JPMorgan Chase "Simon's wisdom, humor, and authoritative analysis jump boldly off of every page. Anyone who has ever invested in a hedge fund or is thinking about it should read this book." —John Trammell, hedge fund investor, CEO, Cadogan Management