Chartered portfolio manager and investment management- week 3 responses

Law

Responses Yasin’s Post You have provided a very good definition of hedge funds. I second you in your confidence in hedge funds as a means of great return for investors. Particularly, the diversification element is important from the profitability point of view. Nevertheless, investment managers should seriously assess their capital base before proceeding with such decisions.

Kyrette’s post

You have rightly indicated large capital base, short-term investment plans, and transparency of the funds as the critically important elements to consider while adding a hedge fund to a client’s portfolio. I agree that it is not suitable to add a hedge fund to such a client’s portfolio who has low capital base, risk averse nature, and willingness for long-term returns. Despite the accessibility of general public to the hedge funds as a result of their inclusion in mutual funds, they are not a viable option because of their cost and subjectivity of information. Participation in returns is not likely to increase considering the current limitations of the hedge funds.

Brandy’s post

You have provided a concise definition of hedge funds. This was a particularly informative post as it introduced some new concepts such as derivatives and the investment technique of leverage. I don’t think it is suitable to add hedge funds that use leverage to a client’s portfolio given the enormity of risk of loss. I agree that institutions’ willingness for diversification drives them toward hedge funds. However, a fair understanding of risk and its comparison to the capital base is fundamental to making informed decision.