

Hedge Funds

[IEMBA Special Course]

Spring 2008

Instructor: Professor Ludwig Chincarini, CFA, Ph.D.

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Website: <http://pages.pomona.edu/~lbc04747/>

(Note: Has some cool videos of various speakers.)

Website: <http://faculty.msb.edu/lbc22>

Office Hours: NA

Class Hours & Location:

Sessions 1 & 2: Friday February 22, 2008 & Saturday February 23, 2008 1:45 PM – 5 PM.

Sessions 3 & 4: Friday March 7, 2008 & Saturday March 8, 2008 1:45 PM – 5 PM.

Prerequisites: NA

Course Description: The course will cover the topic of **hedge funds**. The course will be a blend of theoretical concepts and real-world applications. The course shall cover the legal and business issues of hedge funds, along with the types of hedge fund strategies, the statistics of hedge funds, the performance tracking of hedge funds, and other relevant news items.

Course Objective: To understand the basics of hedge funds and hedge fund management, hedge fund strategies, fund-of-funds due diligence, and business aspects of hedge funds.

Recommended Texts:

1. L'Habitant, Francois-Serge. *Hedge Funds: Myths & Limits*. [*A Guide to the types of hedge funds, accounting for hedge funds, regulatory aspects of hedge funds, and the business set up of a hedge fund.*]

2. Chincarini, Ludwig B. and Daehwan Kim. *Quantitative Equity Portfolio Management*, New York, McGraw-Hill, 2006.

Note: Can be obtained from bookstore or ordered via www.amazon.com or www.barnesandnoble.com.

Note: Both books will be a delightful reference source in the future.

Reader: A compilation of articles relevant to the course will be provided as well.

Handouts: Depending on current news topics, handouts relevant to the material will be distributed to the class.

Other Reading:

1. The Wall St. Journal
2. Barrons

Other Non-Required Books:

1. McCrary, Stuart. A. *How to Create and Manage a Hedge Fund*. (Wiley-Finance), 2002. [*A general overview of the hedge fund process, less mathematical.*]
2. Philips, Kenneth S. and Ronald Surz (editors). *Hedge Funds. Definite Strategies and Techniques*. (Wiley-Finance), 2003. [*A group of articles on the hedge fund practice.*]
3. Bodie, Zvi, Alex Kane and Alan J. Marcus, *Investments*, Fifth edition, (New York: McGraw-Hill), 2002. [*General Text with some unique aspects on investment management.*]
4. Malkiel, Burton. *A Random Walk Down Wall Street*. [*A classic book and an easy read.*]
5. Bernstein, Peter. *Capital Ideas*. [*A book that explains the history of modern portfolio theory, including all of the major players from Markowitz to Fischer Black. A fun read.*]
6. Lewis, Anthony. *Liar's Poker*. [*A fantastic book that discusses, among other things, the great Salomon arbitrage traders of Meriwether & Co., including their love for the game of Liar's Poker.*]
7. Bruck, Connie. *Predator's Ball*. [*A fun book describing the history of Michael Milken and how the junk bond market was created. A fun read in a major movement in Wall St. history.*]

Industry Licenses:

Some of you may wish to enroll in the CFA program (www.aimr.org) or in the MTA program (www.mta.org). The first program is the Certified Financial Analyst pedigree, while the second is a Chartered Market Technician's pedigree. These are credentials that are increasingly being attained by people in the financial industry. A lot of the material in this course will be on the CFA exam.

Course Requirements and Grading:

Class Participation:	20%
Final Exam:	50%
Case Study:	30%
Assignments:	0%

Further Notes:

- **Class participation** consists of attendance, making comments, answering questions, and or posing questions during class. I may randomly call on people. Please come to class on time for consideration of your professor and fellow students.
- The **Final Exam** will cover all material covered in the class. It will be a take-home final exam due to the administration by a date to be determined.
- The **Case Study** will consist of group projects (2-3 per group) in which students prepare a document related to the recent trader debacle in France. You should prepare a sophisticated case study that discusses not just the facts of the case, but your analysis of the situation, including what it means for the bank Societal General. The project will be due one week after the final class.
- **Assignments** will be given so that students can practice answering questions over the material studied, but will not be graded. Students are encouraged to pay attention to **financial news** as some questions may be linked to current financial market events.

A Note on Academic Honesty: Cheating is against the honor code of Georgetown University. Thus, projects, exams, quizzes, and homework should be done with complete integrity. If a case of cheating is detected, I am required by the university to report it to the honor council. Any act of plagiarism is a serious break of academic standards and a deliberate case can lead to suspension or expulsion. Any quotation from another source, whether written or spoken, must be bound by quotation marks and footnoted. Paraphrases must be footnoted as well. Generally, cite the use of words or work by others.

Students agree that by taking this course, papers may be submitted to Turnitin.com for the detection of plagiarism.

Organization and Course Outline¹

Note: Bold articles with *** are strongly recommended readings.

The other readings are not necessary for the class, but good to have as reference material to read at your own pace.

Hedge Funds

Session 1: February 22, 2008

1. Intro to Hedge Funds: What & Why.

Reading:

HF_0: Suri. “Introduction to Hedge Funds”***

HF_1: WSJ. “Hedge Fund Milestones.”***

HF_2: Asness, C. “Do Hedge Funds Hedge?”

HF_3: Lowenstein, R. “The Tiger Fund is Gone. Who’s next?”

HF_4: Jereski, L. and Aaron Lucchetti. “The Market Calms Down: Niederhoffer is Sunk by Market Maelstrom.”

HF_5: Anonymous. “A Speculator’s Latest Lesson.”

HF_6: Dyan, Machan and Atlas Riva. “George Soros meet A.W. Jones.”

HF_7: McLean, Bethany. “Everybody’s Going Hedge Funds.”

HF_8: Kadlec, Daniel. “The King of GARP.”

HF_9: Sender, Henny and Susanne Craig. “At Goldman, Top Fund and Earnings Drop.”

HF_20: *The Economist*. “Rolling in it”***

¹ This may change as we progress through the semester, but in that case, a new outline will be handed out.

2. Hedge Funds & the Law.

Reading:

HF_10: Collins, Daniel. “One Last Stand on Registration”*****HF_11: Black, Keith. “Why Hedge Funds Don’t Need Increased SEC Oversight.”*******HF_12: Hughes, Siobhan. “More Hedge Funds Leave Rank of the SEC Registry”*******HF_13: *The Economist*. “Still Free”****HF_14: *The Economist*. “Big Hitters”****3. The Organizational Structure of Hedge Funds.**

Reading: Chapter 4, L’Habitant

HF_15: Raghavan, Anita, Ianthe Jeanne Dugan, and Gregory Zuckerman. “Despite Blue-Chip Gains, Hedge Funds Increasingly are Faltering and Closing”**HF_16: Pulliam, Susan. “The Hedge-Fund King is Getting Nervous”****4. A Recipe for Starting a Hedge Fund.**

Reading:

Session 2: February 23, 2008**5. Hedge Fund Investors**

Reading:

6. Hedge Fund Strategies

Reading:

Chapter 12, 13, Chincarini & Kim.

Chapter 9, L'Habitant.***

HF_17: Smith, Randall. "Underwriting Shifts into Overdrive"

HF_18: Sender, Henny and Anita Raghavan. "Worry Amid Hedge Fund Boom: Privileged Access to Information"

HF_19: Block, Stanley. "Merger Arbitrage Hedge Funds"***

Break-Out Lab: Compute a couple of hedge fund strategies with real-data.

Session 3: March 7, 2008**7. Hedge Fund Selection**

Reading:

8. Hedge Fund Horror Stories

Reading:

HF_21: Chincarini, Ludwig. "The Failure of LTCM".*****HF_22: Lewis, M. "How the Eggheads Cracked."*****

HF_23: Perold, A. "LTCM"

HF_24: Marthinsen, John Chapter 8. "Long-Term Capital Mismanagement"

HF_25: Chincarini, Ludwig. "The Amaranth Debacle: Failure of Risk Measures or Failure of Risk Management?"***

HF_26: Chincarini, Ludwig. “Natural Gas Futures and Spread Position Risk: Lessons from the Collapse of Amaranth Advisors.” *Working Paper*.

Session 4: March 8, 2008

9. The Risk Management of Hedge Funds

Reading:

HF_27: “Societe General: No Defense.”

10. Hedge Fund Performance and Data

Reading: Chapter 11, L’Habitant.***

Chapter 15 & 17, Chincarini & Kim.

HF_28: Hazanhodzic and Lo. “Can Hedge Fund Returns Be Replicated? The Linear Case.”***

HF_29: Eling and Schuhmacher. “Does the Performance Measure Influence the Evaluation of Hedge Funds?”***

HF_30: Brooks, Clare, and Motson. “The Gross Truth about Hedge Fund Performance and Risk: The Impact of Incentive Fees.”

HF_31: Eling, Martin. “Does Hedge Fund Performance Persist? Overview and New Empirical Evidence.”

HF_32: Ahmed and Nanda. “Performance of Enhanced Index and Quantitative Equity Funds.”

Break-Out Lab: Compute the historical performance of hedge fund categories.

Note: For this section, some of the readings are long. If the reading becomes burdensome prior to class, just scan the articles and get the basic idea rather than reading them intensely.