

Hedge Fund Strategies

Course Number: FINC-GB.3321.30 (or B40.3321)
NYU Stern School of Business - Graduate Division
Spring 2012, Mondays 6pm-9pm

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Office Hours: By appointment on day class meets

Course Description

During the last decade, institutional investors have dramatically increased exposure to alternative asset classes, such as hedge funds, commodities and private equity.

This course will focus on the theory and practice of investing in two of these alternative asset classes - hedge funds and commodities. As part of the hedge fund discussion, we will analyze in detail the following hedge fund strategies: long-short equity, emerging market equity, activist, short-selling, merger arbitrage, equity market neutral, fixed income arbitrage, distressed, relative value arbitrage, convertible arbitrage, quantitative, global macro, managed futures and fund of funds.

In order to gain hands-on experience in hedge fund and commodity investing, students (in a group setting) will construct and manage a fund of several of these hedge fund strategies using a simulation in real-time markets. Also, in order to further enhance the understanding of investment processes and tools used in this arena, the coursework includes business cases involving hedge fund firms.

Prerequisite: COR1-GB.2311 (Foundations of Finance)

Required Reading

Text: Mark Anson, CAIA Level 1: An Introduction to Core Topics in Alternative Investments, Wiley, 2009. The text is available for purchase at the bookstore. In addition, there is a course-pack containing cases and academic articles at the bookstore.

Course Work

There will be a midterm and a final examination.

There will be an applied research project completed in a group setting. This project will provide students with experience in research and decision-making using hedge fund strategies.

At the conclusion of the project, each group will make a presentation about their investment portfolio.

Finally, each student will be asked to write a short paper on the applied research project.

Applied Research Project

For the group project, students will simulate managing a hedge fund portfolio using real-time pricing. The portfolio will invest in hedge fund strategies (such as long-short equity, merger arbitrage and global macro), as well as commodities traded in futures markets.

The group presentation will consist of a mock presentation to the board of an endowment invested in the hedge fund portfolio. Each group will summarize its investment philosophy and process, the composition of the portfolio, the risk management oversight, and last but not least the performance of the portfolio. Investment professionals will be invited as board members and will provide feedback on the presentation.

Each student will also write a short (2-3 page) paper that summarizes lessons learned from the group project about investing, hedge fund strategies, as well as group decision-making.

Class Participation and Case Studies

Participation in class discussion is required, particularly in the discussion involving cases. The case study method is built on the idea of vigorous student participation in class discussion.

Preparation ahead of case studies requires that students will come to class having read the case in detail at least once and having prepared oral answers to pre-assigned questions about the case.

Students are requested to bring name cards to class, so that they receive proper credit for class participation.

Grading

Final Exam	35%
Midterm Exam	25%
Project Group Presentation	12.5%
Project Individual Paper	12.5%
Class Participation	15%

Disabilities

If you are a student with a documented disability on record at the University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

Academic Integrity

You are expected to follow the University's policies on academic honesty and integrity as reflected in the Honor Code and NYU Stern Code of Conduct.

Caution

You are discouraged from actively investing using real funds while taking this course, as it can be both time-consuming and mentally distracting. In addition, you should keep in mind that neither the faculty nor the University is in any way responsible for any investment you undertake during or after this course.

Course Outline

Class 1 February 6

Topic: Course Introduction to Alternative Investments

Text: Chapter 1; Chapter 2

Topic: Hedge Fund Management versus Traditional Asset Management

Text: Chapter 3; Chapter 4; Chapter 5 pp. 56-63; Chapter 10 pp. 119-122, 124

Chapter 11 pp.151-154, 157-159, 166-168; Chapter 12 174-178, 188-190; Chapter 16

Case Note: Fruhan, W., 2010, "The Hedge Fund Industry", Harvard Business School

Case Note: Goldberg, L., R. Pozen and M. Hammerle, 2010, "Disclosure, Regulation, Taxation of Hedge Funds versus Mutual Funds in the U.S", Harvard Business School

Class 2 February 13

Topic: Hedge Funds – Directional Strategies – Long-Short Equities & Short-Selling

Text: Chapter 10 pp. 125-128; Chapter 11 pp. 158-159; Chapter 12, pp. 173-174

Chapter 13 pp. 203-215, 227; Appendix B, pp. 601-606

Case: Perold, A., C. McIsaac and M. Ricks, 2003, "Maverick Capital", Harvard Business School

Case: Perold, A. and B. Tierney, 1997, "Numeric Investors L.P.", Harvard Business School

Class 3 February 27

Topic: Hedge Funds – Other Directional Strategies – Emerging Markets & Activist

Text: Chapter 10 pp. 127-130; Chapter 13 pp. 213-215; Chapter 14, pp. 240-242

Asness, C., R. Krail and J. Liew, 2001, "Do Hedge Funds Hedge?", *The Journal of Portfolio Management*, pp. 6-19

Topic: Hedge Funds - Arbitrage Strategies – Equities – Market Neutral and Merger Arbitrage
Text: Chapter 10 pp. 131-134, 141-143; Chapter 13 pp. 216-218, 222-223, 227-230; Chapter 14, pp.249-250
Case: Chacko, G., R. Cohen, A. Kuhlman and M. Chennault, 2003, “Risk Arbitrage: Abbott Labs and Alza (A)”, Harvard Business School

Class 4 March 5

Topic: Risk Management
Text: Chapter 5, pp. 47-56; Chapter 12, p. 183, 185-187; Chapter 13 pp. 226-230; Chapter 14; Appendix B pp. 609-615
Case: Sapp, S., 2008, “F&S Investments: Understanding Value at Risk”, Ivey School of Business

Class 5 March 19

Topic: Hedge Funds – Arbitrage Strategies – Fixed Income
Text: Chapter 10 pp. 122-123, 135-139, 145; Chapter 13 pp. 220, 223, 229
Case: Perold, A., 1999, “Long Term Capital Management (C)”, Harvard Business School
Jorion, P., 2000, “Risk Management Lessons from Long Term Capital Management”, *European Financial Management*, Vol. 6, pp. 277-300

Class 6 March 26

Midterm Examination

Topic: Distressed and Event-Driven Strategies
Text: Chapter 10 pp. 130-131, 134; Chapter 13 pp. 216, 218-219;
Chapter 14 pp. 249-250; Chapter 26

Topic: Convertible Arbitrage & Relative Value Arbitrage
Text: Chapter 10 pp. 139-141, 143-145; Chapter 13 pp. 220-222, 223-225;
Chapter 14 pp. 231-235; Chapter 17 pp. 293-294

Class 7 April 2

Topic: Hedge Funds – Quantitative and Trading-Based Strategies
Text: Chapter 10, page 126 ; Chapter 11 p. 157; Chapter 12 p.179
Lamont, O. and R. Thaler, 2003, “Anomalies: The Law of One Price in Financial Markets”, *The Journal of Economic Perspectives*, Vol. 17, No. 4, pp. 191-20
Case: Bergstresser, D., L. Cohen, R. Cohen and C. Malloy, 2010, “AQR’s Momentum Funds”, Harvard Business School
Lucchetti, Aaron, “Firms Seek Edge through Speed as Computer Trading Expands”, *The Wall Street Journal*, December 15, 2006, page A1+.

Topic: Hedge Funds - Global Macro Strategies
Text: Chapter 10 p. 146; Chapter 11 p. 157; Chapter 13 pp. 225, 230; Chapter 14 pp. 232-233
Case: Case: Whitman, J. and M. Cascales, 1999, “Hong Kong’s Financial Crisis – 1997-1998”, University of Hong Kong School of Business
Case: Ferguson, N. and J. Schlefer, 2009, “Who Broke the Bank of England?”, Harvard Business
Cassidy, John, “ Mastering the Machine: How Ray Dalio Built the World’s Richest and Strangest Hedge Fund”, *The New Yorker*, July 25, 2011,
Fung, W. and D. Hsieh, 2000, “Measuring the Market Impact of Hedge Funds,” *The Journal of Empirical Finance*, 7, pp.1-36

Class 8 April 9

Topic: Fund of Hedge Funds

Text: Chapter 10 pp. 146-148; Chapter 11 pp. 159-168; Chapter 13 p. 226

Case: Cossin, D. and I. Francis, 2003, “Pacific Alternative Asset Management Company”, International Institute for Management Development

Ineichen, A., 2002, “The Alpha in Fund of Hedge Funds”, *Journal of Wealth Management*, Summer 2002, pp.8-25

Topic: Hedge Funds - Due Diligence

Text: Chapter 12; Chapter 17; Chapter 18

Case: Busaba, W., A. Khokher and A. Duggal, 2008, “Amaranth Advisors: Burning Six Billion in 30 Days”, Ivey School of Business

Davis, Ann, “How a Giant Bet on Natural Gas Sank Brash Hedge Fund Trader”, *The Wall Street Journal*, September 19, 2006, page A1+

Markopoulos, H., “Letter to the SEC: The World’s Largest Hedge Fund is a Fraud”, *The Wall Street Journal Online*, December 17, 2008

Hunter, K., “Hedge Funds Fall Foul of Operational Risk”, *Capco Institute*, January 2003

Class 9 April 16

Topic: Hedge Fund Benchmarks and Role of Hedge Funds in Asset Allocation

Text: Chapter 11 pp. 151-157, 161-168; Chapter 14, pp. 240-242, 250-254; Chapter 15

Case: Perold, A. and E. Stafford, 2010, “Harvard Management Company”, Harvard Business School

Topic: Commodities

Text: Chapter 19; Chapter 20; Chapter 21

Class 10 April 23

Topic: Commodities – Direct Investing

Case: Foerster, S and F. Afshar, 2001, “Timber!: Ontario Teachers’ Pension Plan Board Considers an Alternative Investment Class”, Ivey School of Business

Topic: Commodities & Hedge Funds - Managed Futures

Text: Chapter 22

Gorton, G. and K. Rouwenhorst, 2006, “Facts and Fantasies about Commodity Futures”, *Financial Analysts Journal*, Vol. 62, No.2, pp. 47-68

Class 11 April 30

Group Project Presentations

May 4 Individual Paper Due

Class 12 May 7

Final Examination