

GLOBAL INVESTING: Hedge funds on a five-year roll over mutuals  
By CBS MarketWatch - Agency material  
Financial Times; Nov 07, 2002

Market-timing hedge funds have outmanoeuvred mutual funds over the past five years, beating the average performance by a factor of 10 to 1, according to HedgeFund.net, a hedge-fund service for accredited investors, CBS MarketWatch reports.

Hedge funds netted an average annualised return of 9.7 per cent for the five years ending September 30, compared with just 0.6 per cent by equity and fixed income mutual funds over the same period, according to Lipper.

The top-performing and bottom-performing hedge funds also outperformed their mutual fund counterparts over the same period.

The top 10 per cent of hedge funds tracked by HedgeFund.net turned in an average yearly gain of 19.8 per cent over five years compared with the top 10 per cent of equity and fixed-income mutual funds' average of 7.5 per cent.

Similarly, the bottom 10 per cent of hedge funds generated an average return of 1.5 per cent over the five-year period, while the bottom 10 per cent of mutual funds has lost about 0.5 per cent.

"Here is a very broad view of how hedge funds have done over the past five years, versus a very broad view of how mutual funds have done over the past five years," said HedgeFund.net editor David Snow.

"Investors are aware that hedge funds expose them to something other than simply a long-only stock strategy. Many [accredited investors] are interested in diversifying into market-neutral strategies or strategies that do not simply do well when the market does well and do poorly when the market does poorly," Mr. Snow said.

Accredited investors, as defined by the Securities and Exchange Commission, are individuals or couples with a net worth of at least \$1m or an organisation with assets in excess of \$5m.

While new money flowing to hedge funds is reported to have tailed off recently, the industry is expected to top \$1,000bn in assets by 2004, according to a study conducted last June by Financial Research Corp. Hedge fund tracker Tass Research pegs current hedge fund industry assets at roughly half that.

HedgeFund.net tracks approximately 2,300 hedge funds across 35 investment strategy categories. Only 500 such funds, however, had data going back five years for the purposes of this study.

The rapid growth of the funds and the risky nature of some of their investments has meant that, even as new funds open, many are closing.