
Book Review

HOW TO INVEST IN HEDGE FUNDS: AN INVESTMENT PROFESSIONAL'S GUIDE

by Matthew Ridley

Kogan Page, London, UK, 2004; ISBN 0-7494-4084-8; 409 pp; hardback; £40 or \$75

'How to Invest in Hedge Funds: An Investment Professional's Guide' is one of the recent texts on the subject. The author nicely introduces and demystifies the common misconceptions of hedge funds and discusses a few complex strategies. He further highlights the time line of hedge funds since 1949 with the introduction of the first hedge fund by A. W. Jones. Furthermore, for many investors doubting the superior performance of hedge funds, the author provides strong and clear evidence as to the merit of their record with graphs, tables and performance in extreme market events. The costs and benefits are further examined, along with a summary of a dozen articles by well-known and respected academics in the field to see what is being said about the world of privately managed money called 'hedge funds'. The author further examines whether the industry is presently in a hedge fund bubble. In addition, the author discusses the selection of hedge funds using due diligence, qualitative analysis, quantitative performance measures, factor analysis and the correct way to monitor hedge funds.

The author also compares portfolio construction in both theoretical and

practical settings, a welcomed addition. He then examines the basics of each strategy and moves forward to discuss the fine points in great detail rarely found in many hedge fund texts. Every chapter investigating each hedge fund strategy concludes with key considerations and a glossary. Graphs are also added to each chapter on each individual strategy assessing various associated risk factors along with the attributes of every hedge fund strategy. The penultimate chapter examines the global macro strategy. Commodity trading advisers (CTAs) are also briefly discussed. Ridley clarifies that CTAs can provide an effective combination and diversification tool in a traditional stock and bond portfolio.

Reading this book will educate the average investor, bringing him/her from the basics to the advanced material in an uncomplicated fashion. The book demonstrates the author's immense theoretical and practical knowledge on hedge funds and how they can be implemented in an investment portfolio. The level of statistics in the text is elementary and clear to understand.

The concluding chapter presents the reader with a how-to approach to selecting a fund of hedge funds. This popular

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strategy allows small investors to access many hedge fund strategies with a small outlay of money. Here, the philosophy of a fund of hedge funds along with its benefits and drawbacks is addressed. The author highlights how the sales pitch of a fund of hedge funds can inform investors about the fund itself and points out that stability, product structure and track record are essential and vital when selecting a fund of hedge funds.

This book is a must read for academics, risk management specialists, money managers, analysts, hedge fund managers, CTAs, lawyers, accountants and others looking for a clear presentation of the subject. Aside from the practical view, I considered this book to be a fundamental

reference for financial professionals and academics as well as any investor interested in understanding hedge funds. Matthew Ridley has done an excellent job, especially with his countless tables and figures, and further confirms that hedge funds are here to stay. In essence, this book should be considered as a handbook on the subject of hedge funds. Congratulations on an informative and illustrative text.

*Greg N. Gregoriou, PhD
Hedge Fund Editor
Associate Professor of Finance and
Coordinator of Faculty Research,
School of Business and Economics,
State University of New York
(Plattsburgh), USA*