

Common Hedge Fund Strategies



ARBITRAGE



About Arbitrage

- Simultaneous buy and sell of related assets
- Consistent returns
- Low risk.
- Leverage – Double edged sword





Event Driven

- Base: Events resulting in fluctuation in price
- Category: Arbitrage strategies
- Expertise level : High



Merger Arbitrage

- Base: Opposing positions in two merging companies
- Objective: Take advantage of price inefficiencies
 - before and after a merger.
- Generally: After announcement of merger
 - Stock price of the target company rises
 - The stock price of acquiring company falls.
- Merger arbitrage is a form of event-driven hedge fund strategy.

Distressed Debt



- Investment in bonds and stocks of companies in distress.
- Identifies undervalued investments.
- Stringent exit
- Closed Ended funds
- Finite duration.
- For eg. buying NPA assets from bank

Global Macro Strategies

- Base: Broad political and economic outlooks of various countries.
- Analysis: Both directional & relative
- Very open strategy
- For eg: Currency traders , Interest rate portfolio managers



Fixed Income Arbitrage

- Base: Debt securities
- Expectation: Prices will revert to their true value.
- Common fixed income arbitrage strategies include
 - Swap-spread arbitrage
 - Yield curve arbitrage
 - Capital structure arbitrage.



Fixed Income

- Simple Strategy
- Invest in G-secs
- Lower risk tolerance
- Capital preservation highest priority





Relative Value Arbitrage (Pair Trading)

- Base: Equities of related scrip
- Trade:
 - Buy one stock
 - Sell another highly correlated stock
- Involves high risk
- Requires extensive expertise.
- For eg. Buy TCS Sell Infosys

Convertible Arbitrage

- Base: Convertible securities of stock
- Trade:
 - Buy convertible securities
 - Sell Equity of that security.
- Accurate execution must
- High Leverage needed



Equity Hedge Funds

- Base: Long term fundamental view
- Trade:
 - Invest in security
 - Insure to protect against downside
- Risk involved pretty low
- Combination strategy: Best of both worlds of equity and derivatives
- Liquidity: High



Index Portfolio

Weightage
on
performance

Only top 50
companies
of India

Self
Managed
Portfolio

NIFTY50



Golden Statement

Individual Shares can become
Zero
But Nifty never becomes Zero



Now add more Safety for Nifty

Nifty Price	10000
4%* Insurance (Put Option)	400
Total Investment	10400

*Approximate

It works like insurance & recovers the loss amount due to market fall

What if Analysis

Market goes to 10000

Year	2017	2018	2019	2020	2021
Nifty	10000	12000	8000	12000	10000
Fund Value	1 Cr.	1.2 Cr.	1.2 Cr.	1.8 Cr.	1.8 Cr.
Insurance (%)	-4%	-4%	-4%	-4%	
Insurance	4 Lacs	4.8 Lacs	4.8 Lacs	7.2 Lacs	

10 Year Returns

Instrument	Returns	Risk
Nifty	180%	-52%
Strategy	285%	-4.76%

-: Myth Breaker Statement :-

Myth: We have to take High Risk for High Returns

Reality: We can earn Higher Returns with good Calculation & Low Risk

Funds of Hedge Funds

- Base: Opportunity in other hedge funds
- Trade: Buy shares in **hedge funds**.
- Can be applied:
 - Any type of investment **fund**
 - from a mutual **fund** to
 - a private equity **fund**.



Liquid Alternative Investment Strategies

- Invest fund in Fixed Interest generating securities
- Deploy the interest
- Either return is zero or exponential
- Average returns tends to be pretty above Fixed interest
- Liquidity: Very high



Thank You



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