



Hedge Funds Have Become a Popular Investment Strategy

Hedge funds used to be reserved, by SEC regulation, for the rich and very rich. The SEC required hedge fund investors to have a cool \$1 million in the bank, earn more than \$200,000 a year or have investments worth \$5 million.

Those restrictions have relaxed though and now almost anyone can take advantage of hedge fund investment opportunities. There are many types of hedge funds available. In fact, they are now nearly as diverse as mutual funds.

Though much the same as mutual funds hedge fund portfolios are drawn from the private sector. They use a pooled fund investment strategy but are more flexible than mutual funds because they are not subject to many of the SEC regulations that govern mutual funds. This flexibility is both good and bad. Return on your investment can be very high but because the fund manager is free to employ risky strategies that a mutual fund manager must stay away from, but your losses can be large as well. Typical investment tactics include investment in short stocks, options and futures and buying on margin, that is, using borrowed money.



Hedge fund managers typically have their own money invested in the fund and they are paid a hefty percentage of fund performance. This means they can generally be relied on to maximize profits on the fund while watching carefully for dangerous situations. But they are also paid a management fee that they get whether the fund performs well or not.

The popularity of hedge funds has resulted in a wide variety of differing types of funds but the strategies they employ generally fall into three broad categories:

- Arbitrage Strategies

- Event-Driven Strategies
- Directional Strategies

Each of these hedge fund strategies has their own strengths and weaknesses. A wise investor will investigate the pros and cons of each and discuss their relative merits with a qualified investment advisor.

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