Comment by Paul Bennett, NYSE Group on:

"Hedge Funds: An Industry in its Adolescence" by William H.K. Fung & David A. Hsieh

Federal Reserve Bank of Atlanta Conference

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Disclaimer

These comments reflect my personal views and do not necessarily reflect the views of the NYSE Group or its Directors.

3 Comments

- Hedge funds as institutions
- Suitability
- System Stability

Hedge Funds as Institutions

Perceptions

“Good”

- entrepreneurial enforcers of market & economic efficiency
- Currencies, credit, securities, commodities…
- corporate control

“Bad”

- Effects on externalities and workers
- investor suitability
- de-stabilizers of markets

Hedge Funds as Institutions

- Industry evolution
  - Structural shift?
    - prop desks, raiders, etc
    - compensation issues
    - banking relationships
    - Why?

Hedge Funds as Institutions

- Technology
  - Financial theory and measurement
  - Hardware and software
- Scale
  - Management agency issues
  - Technological change
  - Market impact
  - Bank consolidation
  - Leverage

Suitability

– Individuals?

– Pensions and endowments?

– Smaller and smaller minima?

– Funds of Funds ⇔ Return dilution

– Understanding the risks (who?)

System Stability

Risk to Intermediaries

- “Not an asset class”, but…
- Concentrations on “other” risk factors
- “Mostly factor bets” (how stable?)
- Portfolio convergence/concentration

Spillover/externalities

System Stability

Risk to Markets

- Fund Size & Convergence of viewpoints
- Dynamic hedging, liquidity requirements of strategies?
- 20 percent over $200 million