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**Publication:** Asheville Citizen-Times  
**Day:** MONDAY  
**Section:** W  
**Page:** 5  
**Keyword:** COLUMNS

**Date:** 02/14/2005  
**Edition:** FINAL  
**Sectionname:** WNC Business  
**Byline:** BY WARREN W. WALL

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## Hedge funds seek to make money in rising and falling markets, but they're not for everyone

Hedge funds seek to make money in rising and falling markets, but they're not for everyone

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Making money whether the market goes up or down almost sounds too good to be true.

Nevertheless, there are investment managers who have been able to do exactly that. Furthermore, several financial institutions recently have made it easier for the average individual to invest with these managers.

Hedge funds are private partnerships that invest primarily in publicly traded securities or financial derivatives. Since the goal of a hedge fund is to make money in all market environments, its managers have wide latitude to invest in options, short stocks, or employ other hedging strategies. On the other hand, mutual fund managers often are limited in their ability to use such aggressive techniques and therefore may have difficulty showing gains when markets are down.

Over the past 16 years through 2003, overall hedge fund gains have been impressive: 17.8 percent compounded annual return compared with 12.5 percent for the SP500. And for the shorter term, they have gained an average of 14.88 percent compounded annually for the last five years, whereas the SP500 average compounded annually over the same period fell 0.58 percent.

How can you invest in hedge funds, and would you even want to?

SEC regulations limit hedge funds to 99 investors, and at least 65 of them must be accredited (\$1 million net worth). Therefore, hedge funds were out of reach for average investors. Now though, mutual funds companies have registered hedge funds that invest in unregistered, private hedge funds. These types of hedge funds can have lower minimum investment requirements than the typical hedge fund and a higher number of investors.

Yet, despite the attractive returns and new products aimed at smaller investors, such investments are not without shortcomings. For example, in the past there has been very little SEC regulation, disclosure of investments held is not required, and daily fund prices are not available. This may be changing soon due to recent proposed new SEC regulations that will require more hedge fund disclosure.

Note: Investing in funds of hedge funds may involve high fees and risks, including loss of principal. Carefully read the prospectus before investing.

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**Department:** WNC BUSINESS

**Depth:** 12.25

DC4 Report

**Docname:** WALL\_0214  
**Pubdate:** 02/14/2005  
**Typist:** KATHLEEN DAVIS

**Docnumber:** 940965  
**Source:** STORY  
**Wordcount:** 368

*1-Edit*

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**Author:** KATHLEEN DAVIS  
**Status:** Sent

**Datatype:** Text