

PREFACE

Ten years ago, there were relatively few books about the hedge fund industry. The dearth of prior material may be related to the notoriously secretive nature of hedge funds and to a much smaller asset base relative to the roughly \$2 trillion that they control today. At present, there are quite a few good books on hedge funds, but they appear to be clustered around

a handful of subtopics. The topics mostly include interviews with successful hedge fund managers, general discussions of hedge fund strategies, and “how to start a hedge fund” books primarily intended for aspiring hedge funds managers. As someone who works in the hedge fund / investment management business and teaches an MBA class on the topic, I perceived a significant gap within the literature. Few books created a framework for generating superior risk adjusted returns, or **alpha**, and for growing the hedge fund management company in an intelligent manner. These topics are what most hedge fund professionals care greatly about.

The following questions came to my mind as I began to formulate the material for this book:

- How does hedge fund research differ from traditional “long only” research despite their common goal of achieving alpha?
- What is the best way of executing various hedge fund strategies in order to turn *expected* returns into real profits?
- What hedge fund strategies are best suited to earning alpha in emerging markets, arguably the most fertile investment frontier for the decades ahead?
- What is the typical lifecycle of a hedge fund strategy?

- What is an intelligent method for evolving from a single strategy fund to a multistrategy fund (or series of funds)?
- What is a rigorous approach for conducting due diligence on a hedge fund?
- Can understanding the psychological aspects of hedge fund managers help explain their actions and performance?
- “Hedge fund risk management” seems to be somewhat an oxymoron given many recent high profile failures, but is there any value that can be added to this topic?
- Is there a systematic approach for managing a successful fund of fund?
- What are the current trends and future outlook for the hedge fund industry?

These and other questions served as the basis for the chapters in this book. Although some of the topics may appear somewhat disjointed and the flow is not as smooth as I would like it to be, they all coalesce around two points: (a framework for) **generating** and **understanding alpha**. Hence the title of this book.

I felt I had the outline for a strong book, but faced a problem. How could I credibly talk about generating alpha in China, for example, if I could not read or speak (Mandarin) Chinese? I have been to China more than a dozen times in the past decade, totaling nearly six months of time, but felt that someone who knew the culture intimately and was fluent in Chinese could do a better job than me alone. That is when I decided to find outside authors and co-authors to write portions of this book.

I found additional inspiration in one of the best books, in my opinion, ever written on hedge funds entitled, *Hedge Funds: Investment and Portfolio Strategies for the Institutional Investor* by Lederman and Klein. Their book also utilized outside experts for selected chapters.

One reviewer on Amazon.com said of the Lederman and Klein book:

“The list of books written on hedge funds is a short one, and this book is certainly the finest on the subject. The professionals who contributed their specialized knowledge are of the highest caliber, and better yet, many of them can

be reached for counsel... I found all of the information to be useable and valuable information with absolutely no filler.”

Similarly, my goal also is to produce a high quality and practical book with no filler. The primary target audience of this book is those working in the (broadly defined) hedge fund industry, and those contemplating the launch of their own hedge fund. Others, such as securities analysts, regulators, academics, students, and investors, may also find significant value in the material. The chapters are largely self-contained, resulting in some repetition, but also increased convenience for those readers only interested in particular topics.

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