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INSTITUTE FOR GLOBAL ASSET AND RISK MANAGEMENT

Myths of Hedge Fund Investment

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Institute for Global Asset and Risk Management

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Truth is not hard to kill and that a lie told well is immortal.

Mark Twain, Advice to Youth

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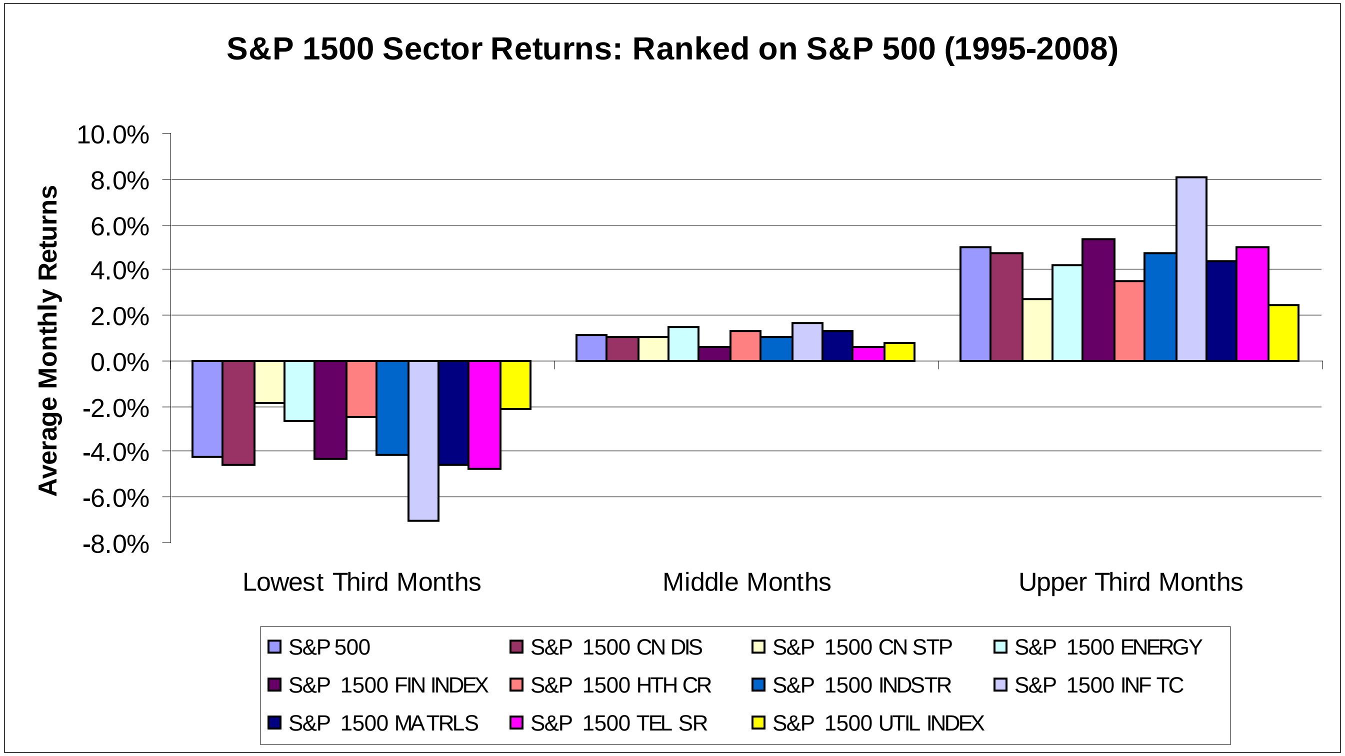
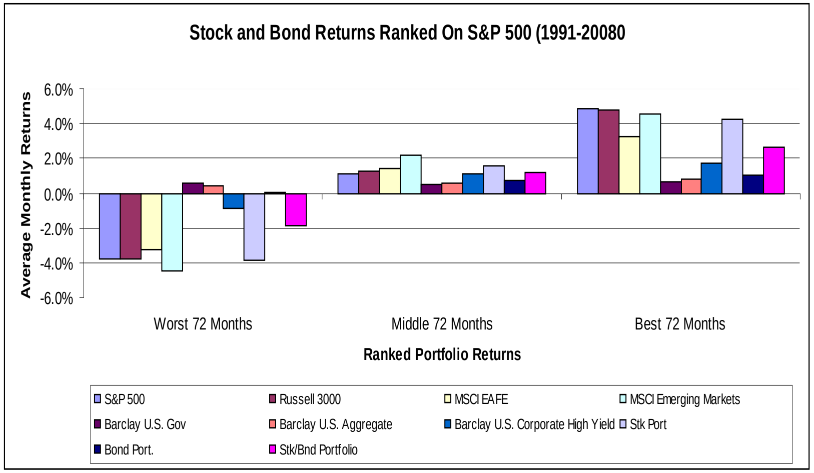
Myth 1: Stock Sectors Provide Sufficient Diversification For Investors.

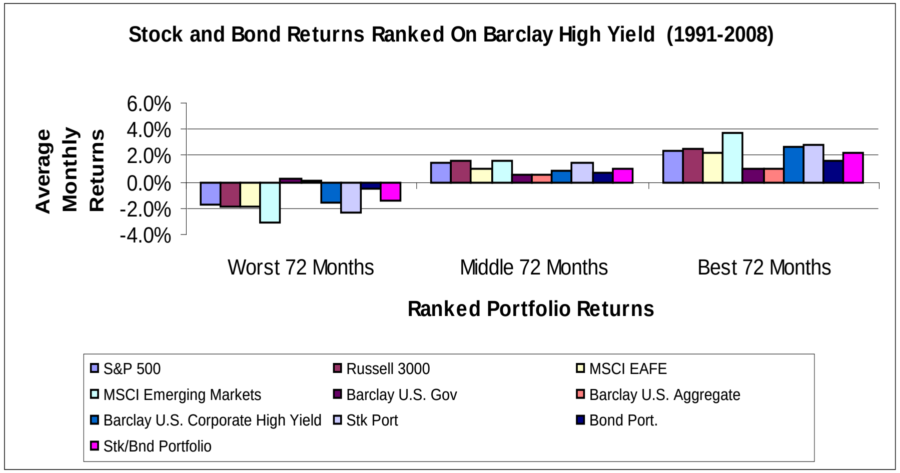
Answer: Stock markets (country as well as industry sector) are often positively correlated (especially during periods of extreme equity downturns) such that holding a variety of equity indices often fails to provide adequate diversification.



Myth 2: Stocks And Bonds Provide Sufficient Diversification.

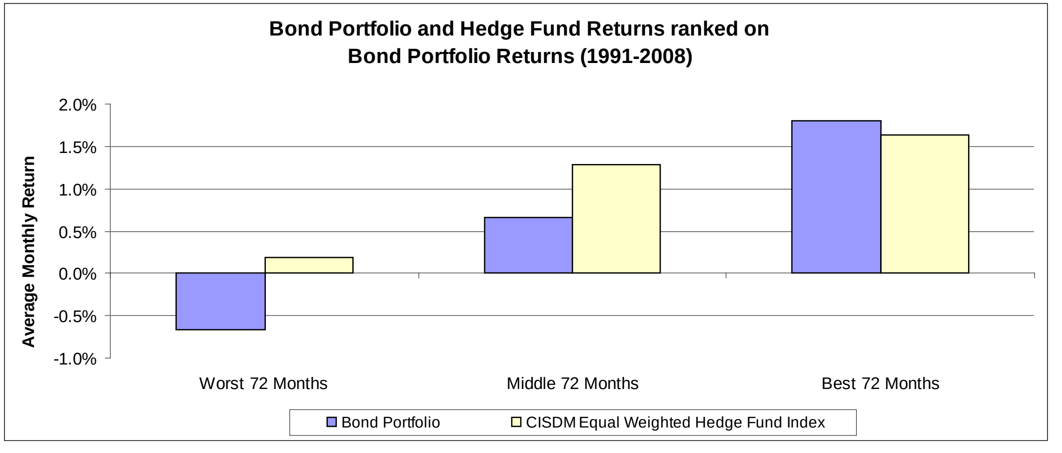
Answer: Stocks and corporate bonds (especially high yield corporate bonds) are often positively correlated, especially in periods of increasing credit spreads such that most equity investments and some credit sensitive bond investments perform poorly in down equity markets. In addition, the annual volatility of most equity indices is twice that of fixed income indices such that even in periods of low correlation between stocks and bonds an equal weighted stock and bond portfolio has significant equity exposure. Investors desiring a more risk balanced portfolio require additional investments with less equity and credit risk exposure such that the portfolio's volatility is not dominated by its equity component.





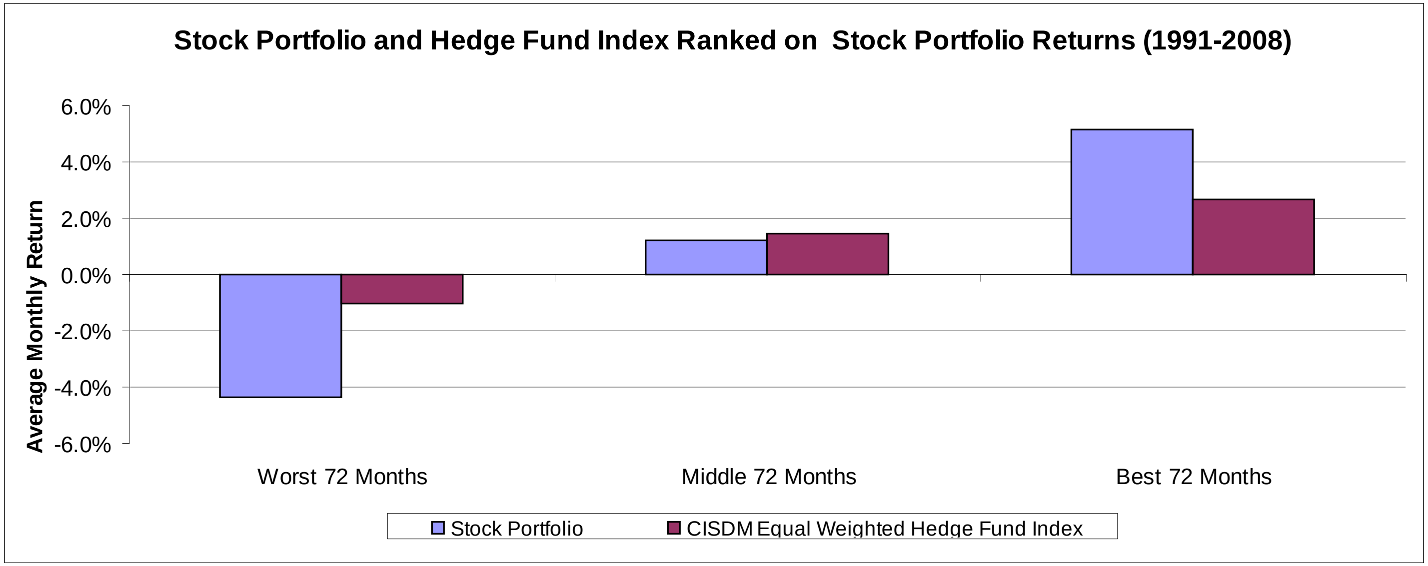
Myth 3: Hedge Funds Do Not Provide Diversification For Bond Investors.

Answer: Bond markets (country, sector and maturity) are often positively correlated (especially during periods of global credit crises) such that holding a variety of bond indices often fails to provide adequate diversification. Hedge fund strategies which are structured to have little exposure to interest rate or credit spread movements provide diversification in those market environments where many bonds sectors perform poorly. Since most hedge funds have volatility profiles similar to bond investments, the incremental impact on the risk of a bond portfolio should primarily reflect the lack of sensitivity to similar market factors than higher levels of absolute risk.



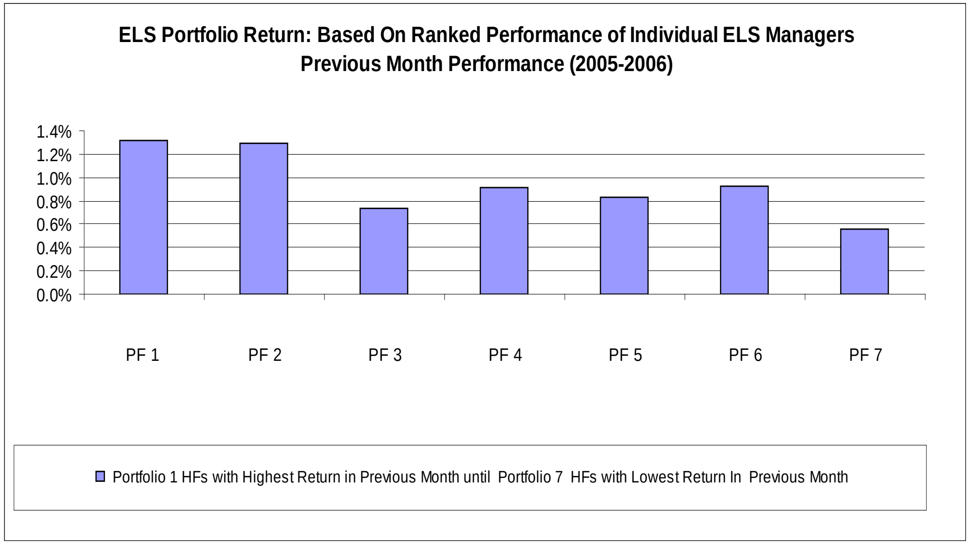
Myth 4: Hedge Funds Do Not Provide Diversification For Equity Investors.

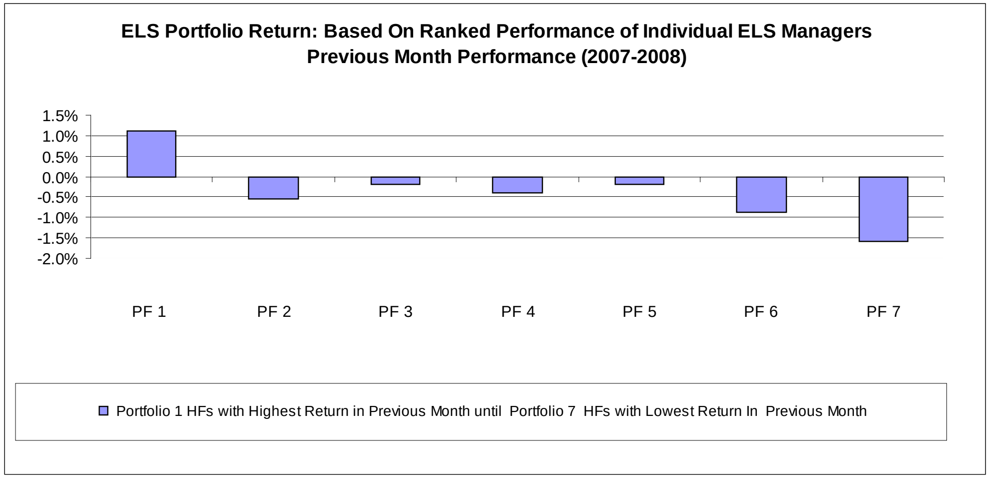
Answer: Equity markets (country and sector) are often positively correlated (especially during periods of global credit crises) such that holding a variety of global stock indices often fails to provide adequate diversification. Hedge fund strategies which are structured to have little exposure to equity, interest rate or credit spread movements provide diversification in those market environments where many stock sectors perform poorly.



Myth 5: A Hedge Fund's Past Performance Is A Predictor Of Future Performance.

Answer: There is some evidence of performance persistence at the fund level at the extremes, but even that evidence is period specific.





Myth 6: Hedge Funds Are Riskier Than Equity Securities.

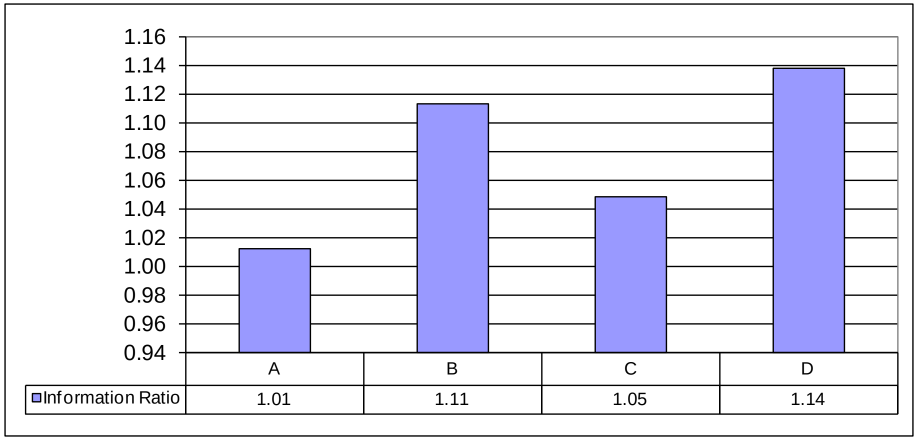
Answer: While some hedge funds are in fact riskier than some equity securities, academic research has shown that, at the portfolio level, the average annualized standard deviation of the individual hedge fund portfolio is considerably less than that of the S&P 500. In addition, at the individual security level, the average annualized standard deviation of equity long short funds has been found to have a lower standard deviation than the average standard deviation of the equities listed in the Dow Jones 30 Industrial.

Descriptive Statistics: 1991-2008	Annualized Return	Standard Deviation	Information Ratio
CISDM Equal Weighted Hedge Fund Index	12.9%	7.4%	1.74
S&P 500 Total Return Index	7.9%	14.4%	0.55

Myth 7: Hedge Funds Do Not Add Diversification Benefits To Mixed Asset Portfolios.

Answer: Investment theory has shown that assets should be evaluated not only as standalone vehicles but also on their risk-adjusted impact (e.g. mean return/standard deviation) when added to an existing portfolio of different asset classes. Academic research has indicated that hedge funds increased the return-to-risk tradeoff (e.g. in terms of information ratios) when they are added to a traditional stock and bond portfolio and/or to a portfolio of traditional and other alternative assets, such as CTAs or commodities.

Mulitple Asset Class Portfolio Performance 1991-2008				
Portfolios	A	B	C	D
Annualized Returns	7.73%	8.26%	8.01%	8.50%
Standard Deviation	7.64%	7.42%	7.64%	7.47%
Information Ratio	1.01	1.11	1.05	1.14
Maximum Drawdown	-20.98%	-20.98%	-25.63%	-25.17%
Correlation with Hedge Funds	0.71		0.79	
Portfolio A	Equal Weights S&P 500 and Barclays Capital Bond Aggregate			
Portfolio B	90% Portfolio A and 10% Hedge Funds			
Portfolio C	75% Portfolio A and 25% CTA/Commodities/Private Equity/Real Estate			
Portfolio D	90% Portfolio C and 10% Hedge Funds			



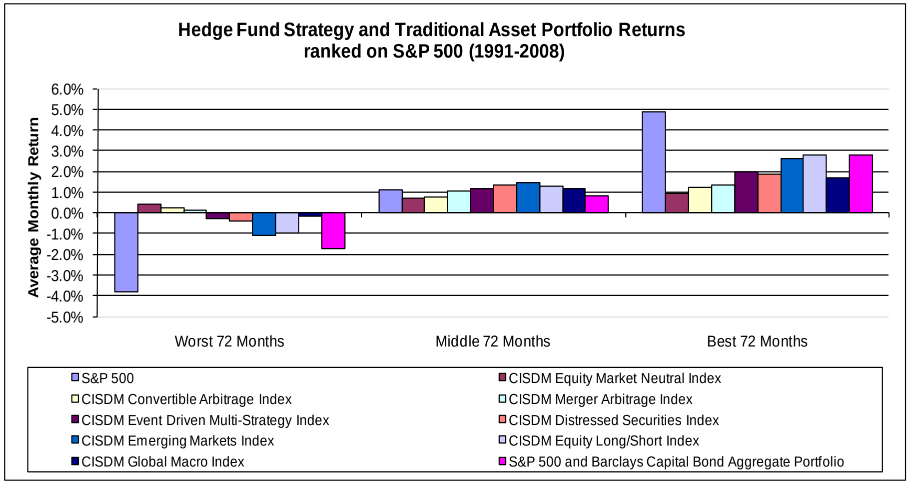
Myth 8: Hedge Funds Are Absolute Return Vehicles.

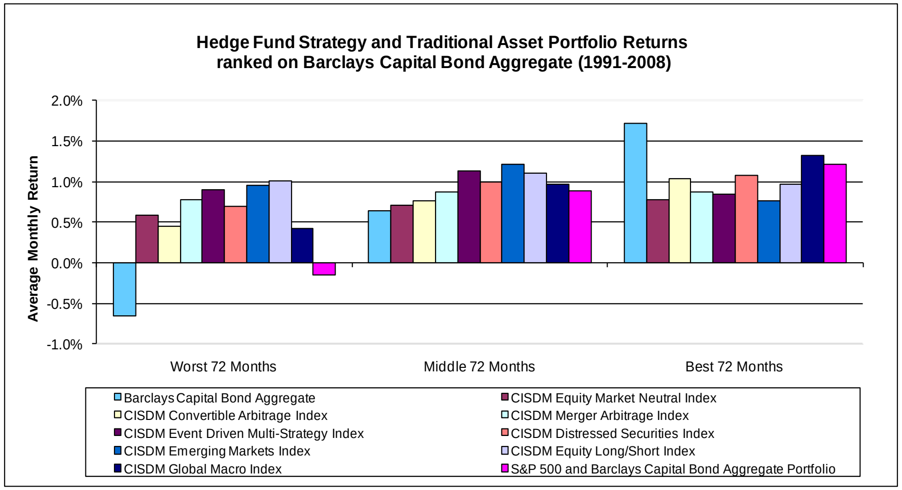
Answer: While hedge funds have often been described as absolute return vehicles due to their low equity betas as well as the lack of a regulatory requirement to track a particular passive index, research has shown that most hedge fund managers within a particular strategy often have similar exposure to fundamental market factors (equity risk, credit risk), and trading opportunities (liquidity risks). As a result, hedge fund returns, while due partly to manager skill, are also based on a set of common market factor benchmarks such that hedge funds have a common benchmark component and should not be regarded as absolute return vehicles.

CISDM Hedge Fund Strategy Indices Performance and Correlation with Market Factors (1991-2008)	Correlation		
	S&P 500	Barclays Capital Bond Agg	Barclays Capital Corporate HY
CISDM Equal Weighted Hedge Fund Index	0.73	0.09	0.61
CISDM Equity Market Neutral Index	0.41	0.18	0.37
CISDM Convertible Arbitrage Index	0.45	0.29	0.66
CISDM Distressed Securities Index	0.62	0.13	0.63
CISDM Event Driven Multi-Strategy Index	0.68	0.04	0.70
CISDM Merger Arbitrage Index	0.53	0.10	0.55
CISDM Emerging Markets Index	0.57	0.04	0.53
CISDM Equity Long/Short Index	0.75	0.06	0.52
CISDM Global Macro Index	0.41	0.25	0.31

Myth 9: All Hedge Fund Strategies Provide Diversification To Stock And Bond Portfolios.

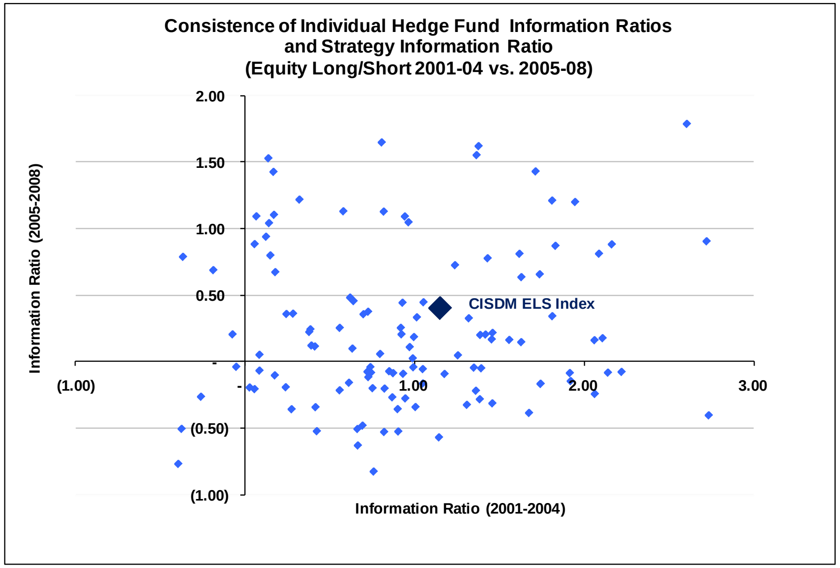
Answer: Stock and bond portfolios often provide high and low returns in similar periods. A hedge fund portfolio may have limited losses in periods where a stock and bond portfolio performs poorly and upside return participation when the stock and bond portfolio performs well. The underlying hedge fund strategy is crucial to its diversification potential across a range of different stock and bond market environments.

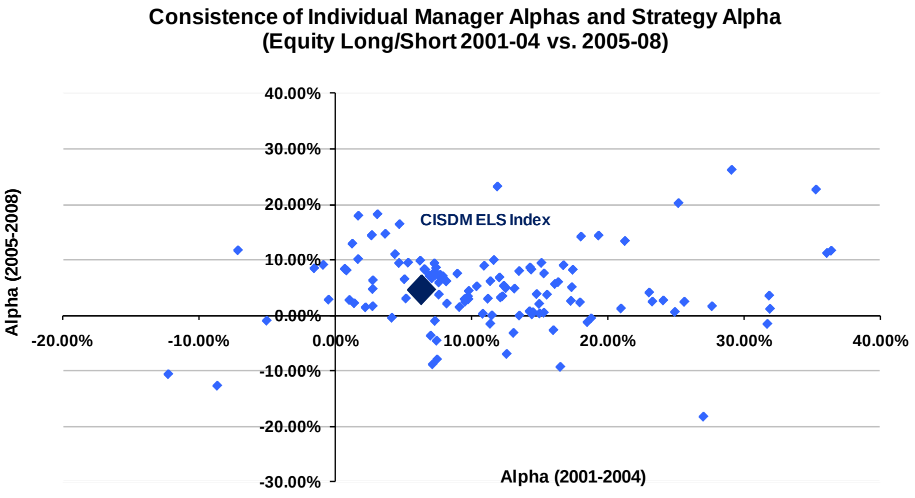




Myth 10: Manager Return-to-Risk Is As Consistent As Strategy Return-to-Risk.

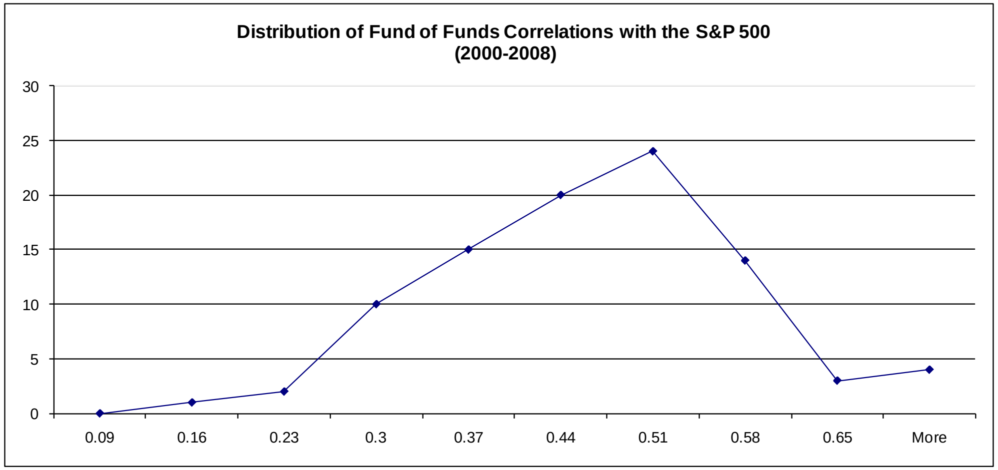
Answer: Strategy information ratio (e.g. CISDM Equity Long Short Index) is more consistent than manager information ratio, with similar hedge fund return/risk tradeoff for the period of 2001-2004 and of 2005-2008. Strategy alpha is also more consistent (positive alpha in both periods) than individual manager/fund alpha which show little or no consistency between alphas in both periods.

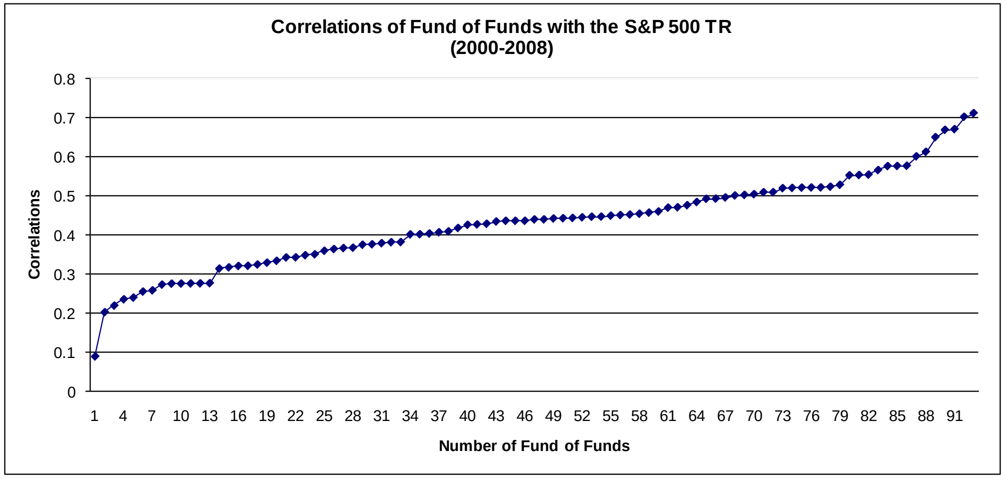




Myth 11: All Fund Of Funds Provide Similar Return And Risk Opportunities.

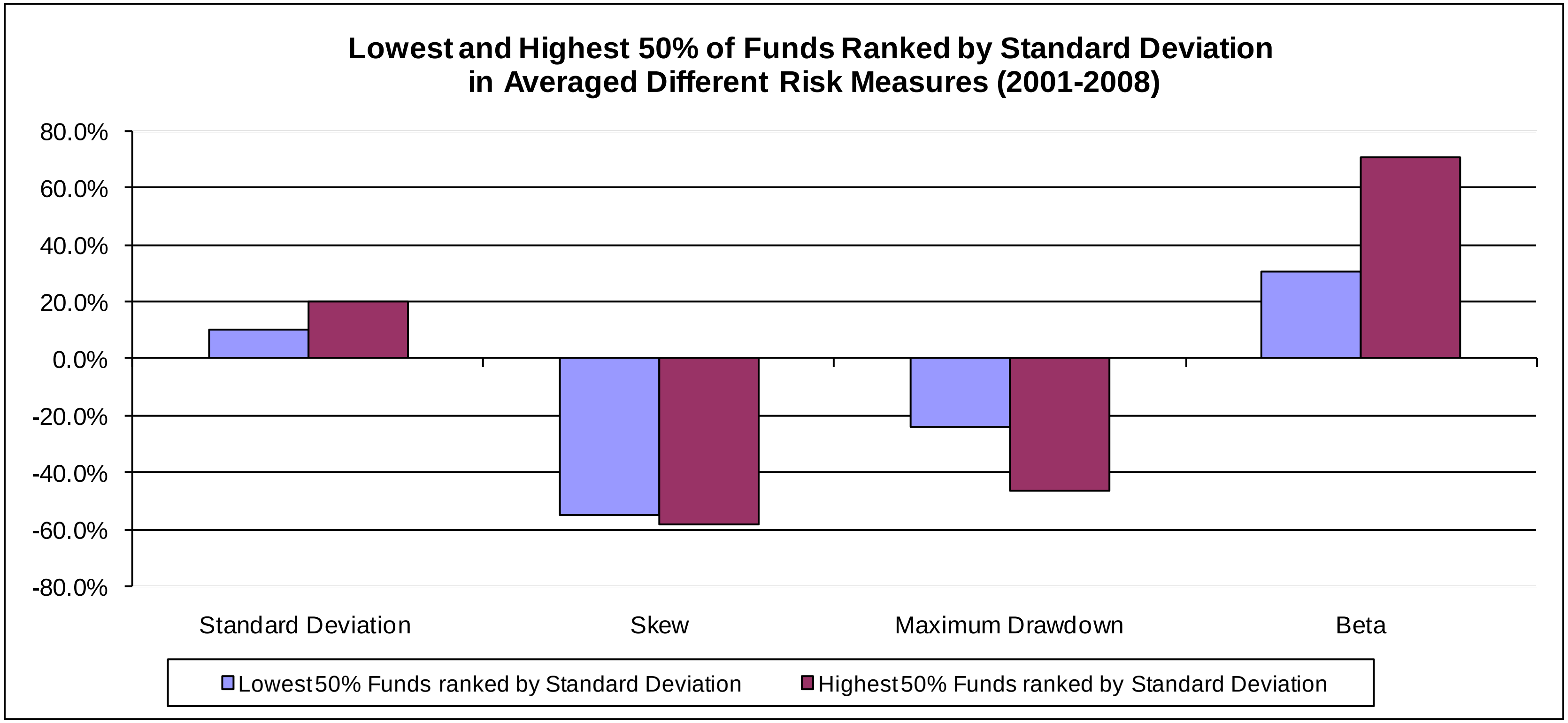
Answer: Fund of Funds have provided an easy means of accessing hedge fund returns, with historical Fund of Funds returns providing a more accurate representation of future returns than that provided by generic hedge fund indices. At the same time, investors should note that a wide variety of Fund of Funds exist. How one Fund of Funds performs does not necessarily reflect the performance of other Fund of Funds.





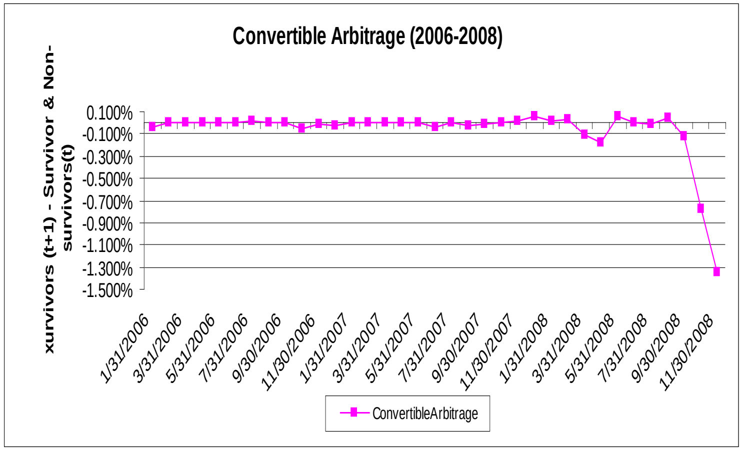
Myth 12: Each Hedge Fund Requires Its Own Unique Measures Of Performance.

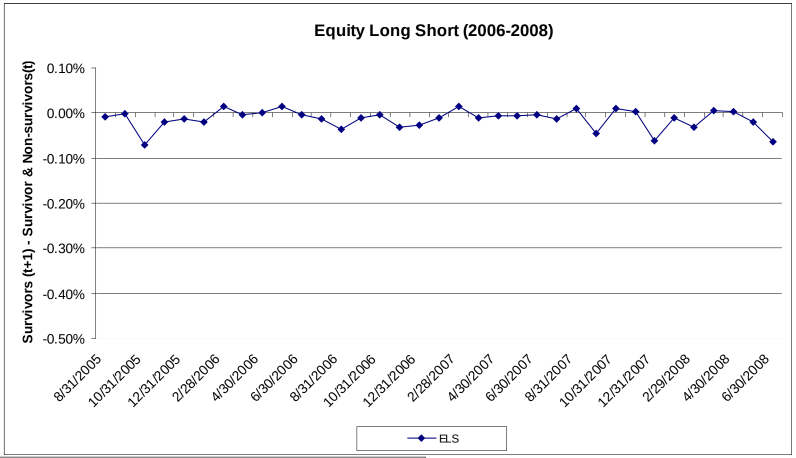
Answer: Hedge funds may require a set of additional measures of risk concerns (e.g. liquidity). However, research has indicated that most ‘suggested’ unique hedge fund risk measures (semi-deviation, drawdown) provide little additional information and rank funds similar to other measures of risk.

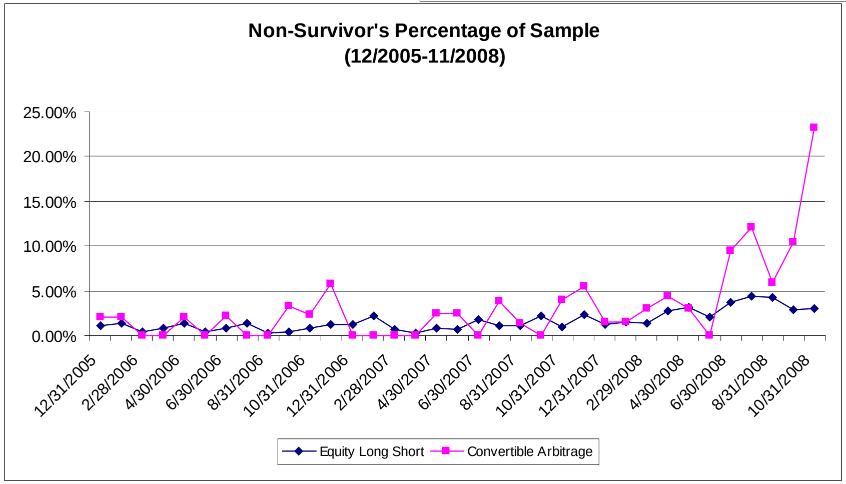


Myth 13: Survivor Bias Impact Is Consistent Across Hedge Fund Strategies.

Answer: Survivor bias is the upward bias in return estimates which results from only using managers from current 'alive only' data bases. To the extent that those managers who were left out of the current data base underperformed the current alive ones, survivor bias exists. Survivor bias, however, is style dependent, time dependent, and manager dependent.







Myth 14: Hedge Fund Performance Is Consistent With The Size of Fees.

Answer: Some managers claim that high fees are correlated with high performance. However, research shows that performance fees do not provide the sole means to differentiate manager returns. In fact, if one takes a more micro analysis (e.g. such as growth), fees show little impact on performance.

2004-2008	Incentive Fee	Average Monthly Return	Standard Deviation
U.S. Opp: Value	10	0.6%	1.84%
	20	0.4%	2.95%
US Opp: Growth	10	0.4%	2.19%
	20	0.0%	3.52%
US Small: Cap	20	0.3%	2.28%

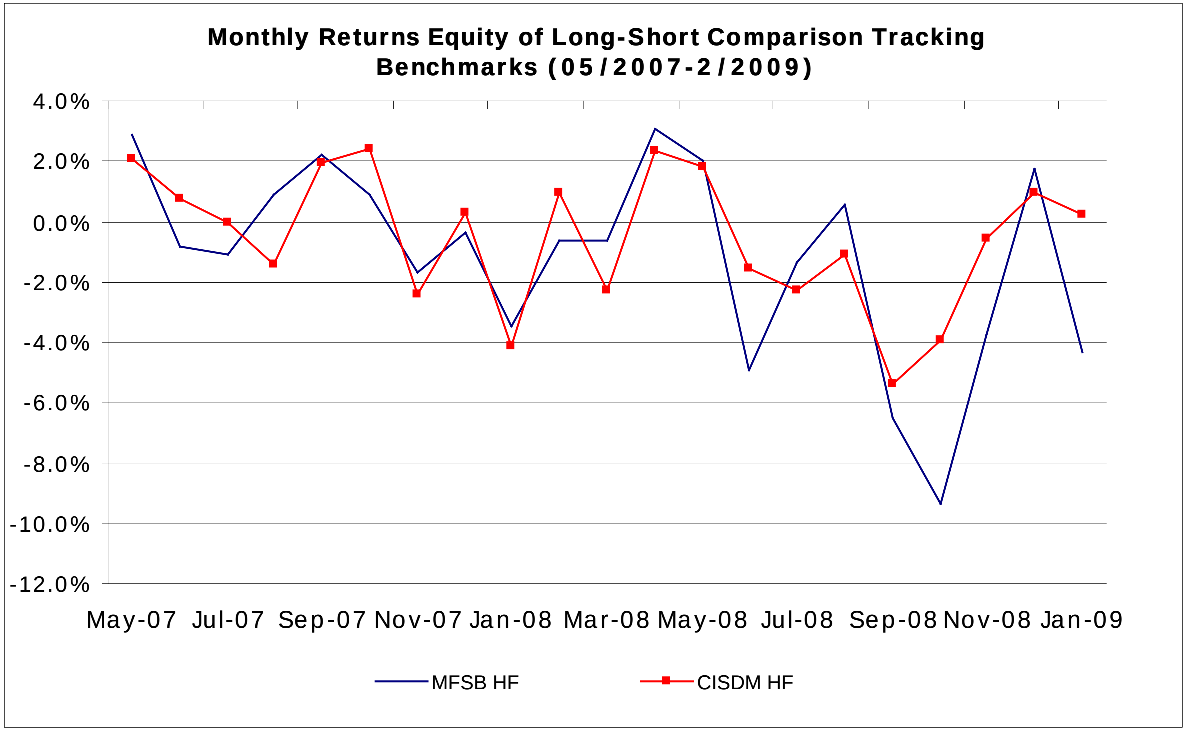
Myth 15: Fund Redemption Does Not Impact Hedge Fund Return.

Answer: Fund access means different things to different people. It is generally believed that the more restrictions investors have on entering and exiting a fund, the greater the extent managers can hold illiquid assets and have a higher expected return-to-risk profile. Research has shown that firms with greater restrictions, such as redemption period, generally provide a higher return consistent with the risk of less liquidity. The following confirms this view in that equity long/short funds with quarterly exit restrictions have higher risk than similar hedge funds with monthly redemption.

2004-2008	Fund Redemption	Average Monthly Return	Standard Deviation
U.S. Opp: Value	Monthly	0.38%	2.66%
	Quarterly	0.25%	3.13%
US Small: Cap	Monthly	0.43%	2.32%
	Quarterly	0.44%	2.96%

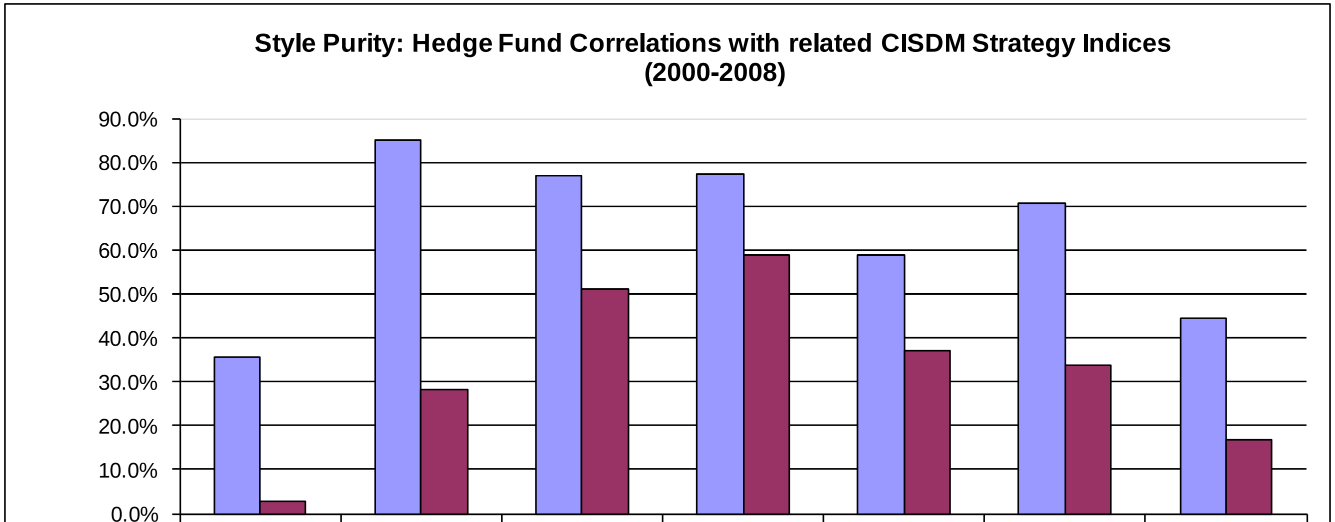
Myth 16: Hedge Funds And Hedge Indices Cannot Be Replicated.

Answer: Each hedge fund manager is unique in its own way; however, it is still possible to find other similar managers such that one can create a hedge fund portfolio which tracks other funds' performance. In addition, there is increasing academic evidence that tradable cash and derivative assets can be used to track active manager based hedge funds.



Myth 17: Hedge Fund Data Sets Provide No Useful Information.

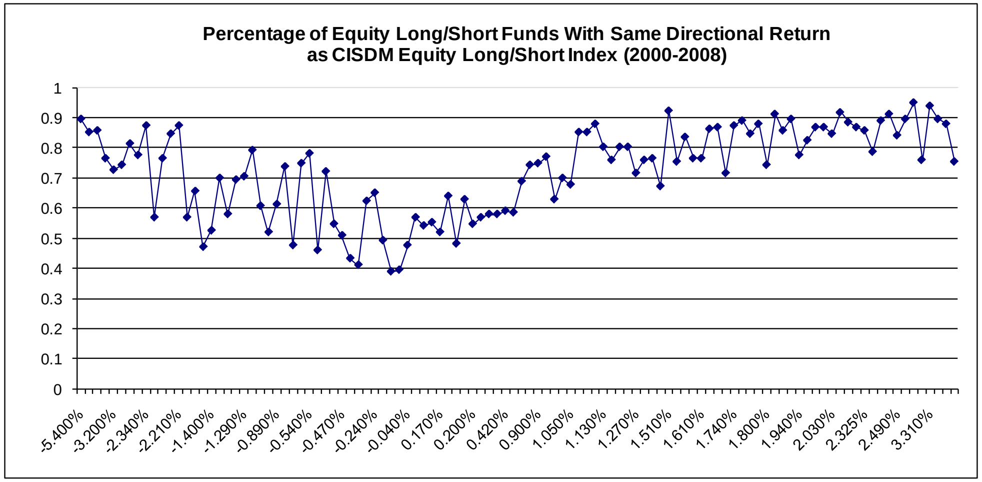
Answer: For the most part, hedge fund data is self-reported by a variety of firms. As a result, the quality of the data is dependent partly on the honesty of the fund manager and the data base provider. Therefore, within multiple data bases, individual funds can differ to the strategy they are assigned to and may not reflect their true trading style.

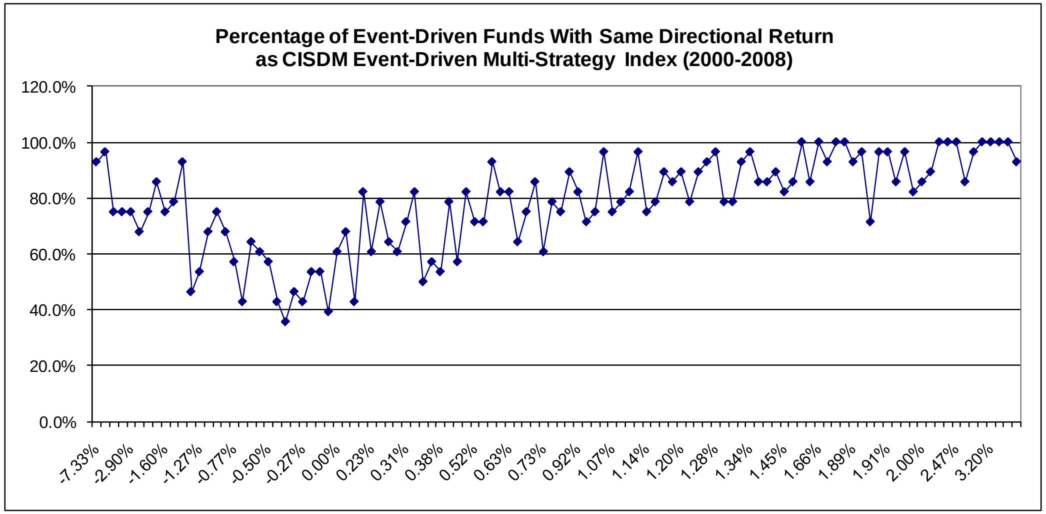


	EMN	CA	ED	MA	DS	ELS	GM
Top 50%	35.7%	85.1%	77.0%	77.3%	58.8%	70.5%	44.5%
Bottom 50%	2.9%	28.1%	51.2%	58.9%	36.9%	33.9%	16.7%

Myth 18: Hedge Funds That Follow The Same Strategy Often Behave Very Differently.

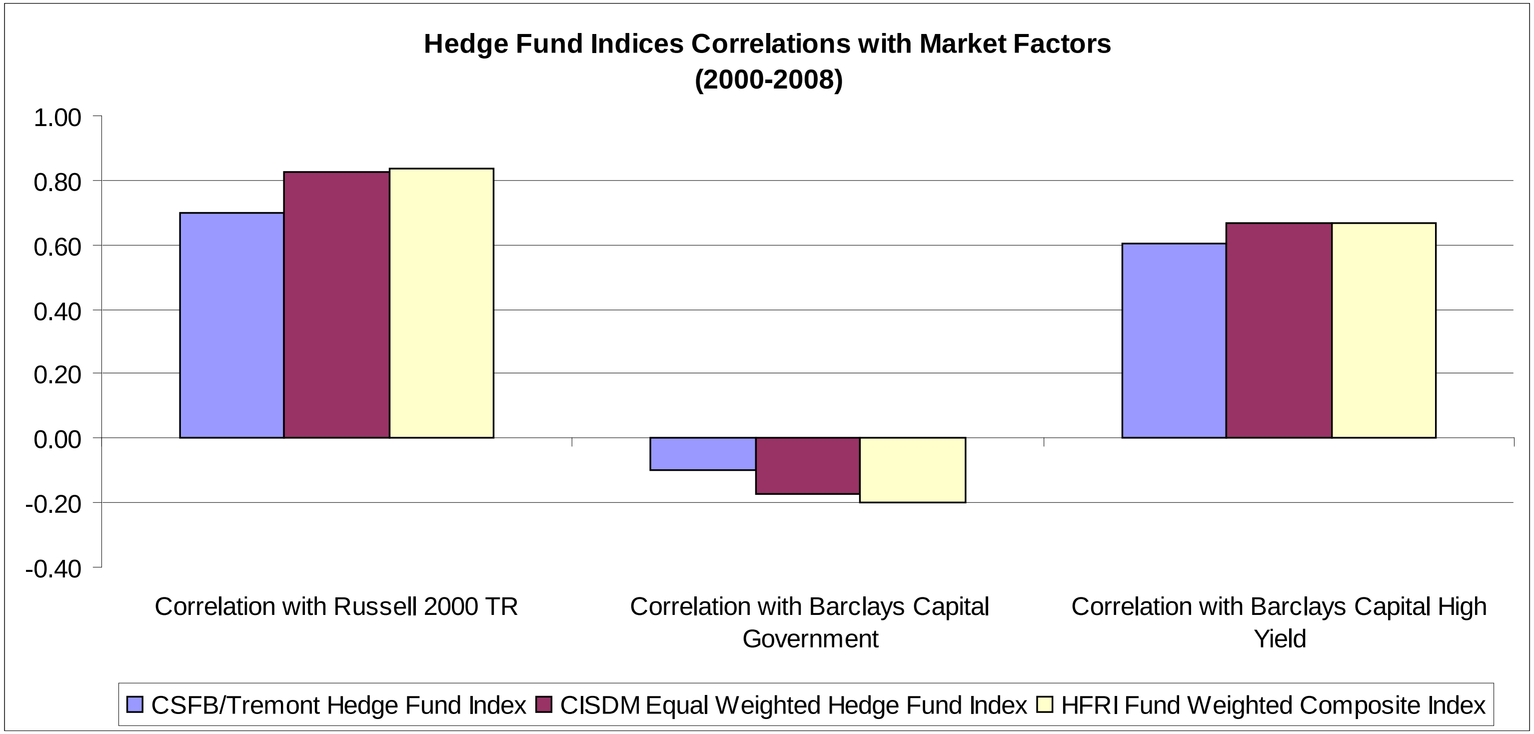
Answer: Since hedge fund returns are a result of not only market exposure but also trading skill, funds that trade the same strategy may sometimes behave very differently. However, research has shown that if funds are screened for a set of basic criteria to ensure a greater level of style purity, funds with similar strategies perform ‘very similarly’.





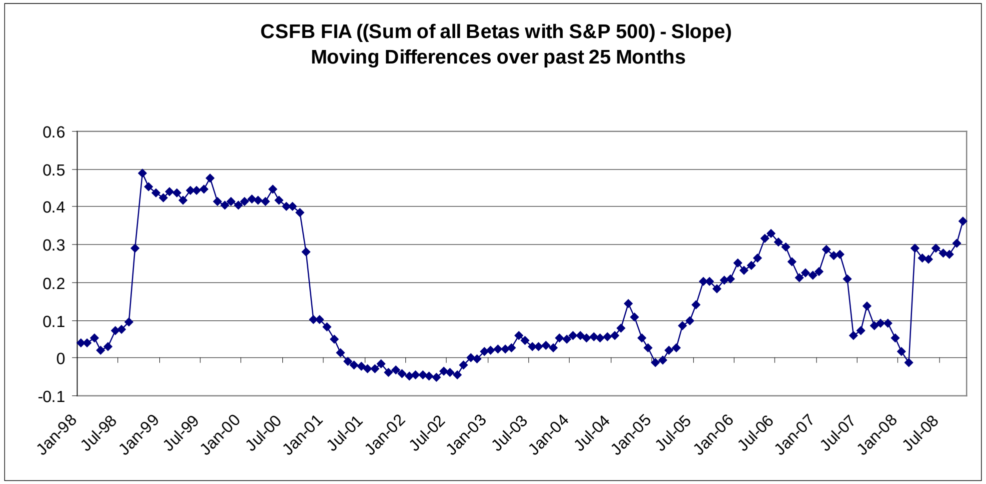
Myth 19: Similar Indices From Different Index Providers Behave Very Differently.

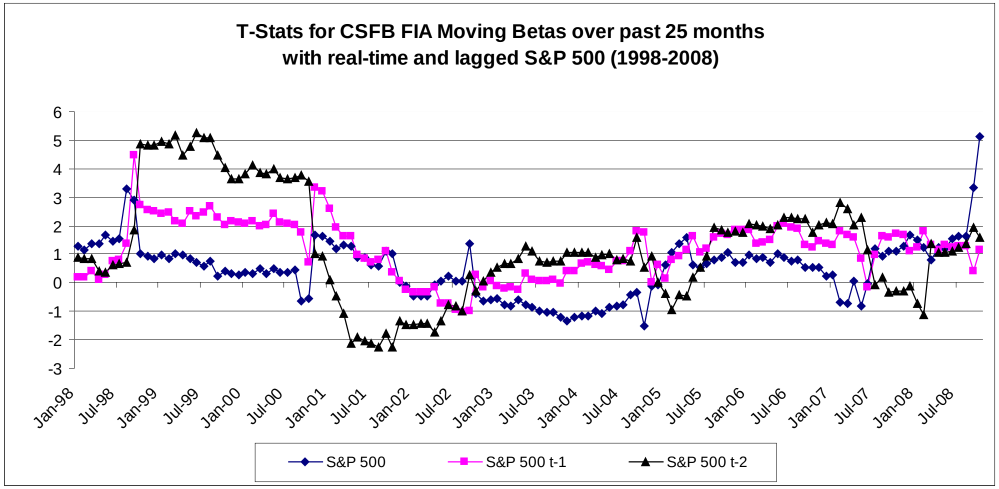
Answer: The answer is: What is different? Traditional stock indices have different returns (S&P 500 and Russell 1000 and Morningstar and Lipper mutual fund indexes). Manager based hedge fund indices often have different mean returns but research has shown that indices in the same strategy are sensitive to the same market factors, regardless of index source.



Myth 20: The True Risks Of Hedge Funds Are Underestimated.

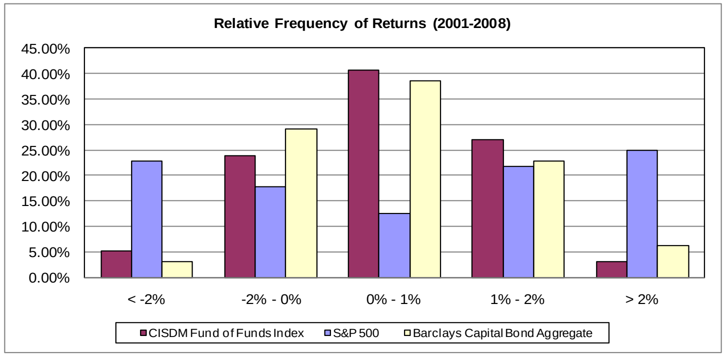
Answer: There are many definitions of risk. Academic studies on risk estimation have generally emphasized the potential impact of price smoothing. Recent empirical research has shown that the studies which emphasize price smoothing (e.g. correlation impacts) are time specific. For instance, after leaving out the period of fall 1998, there is little if any evidence of price smoothing and its impact on risk estimation.

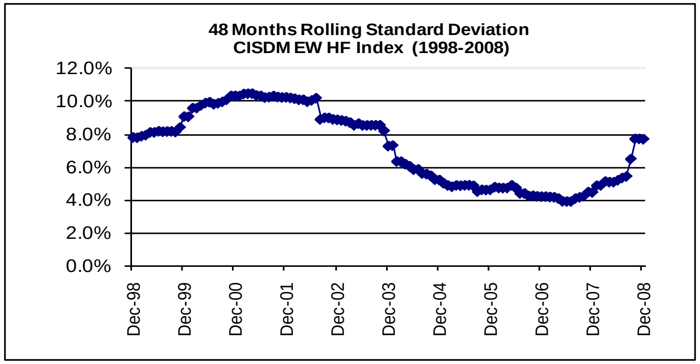


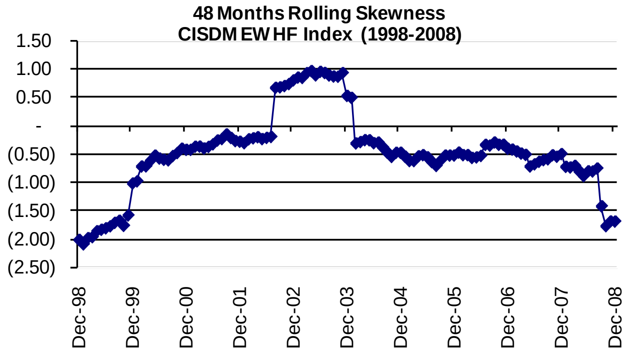


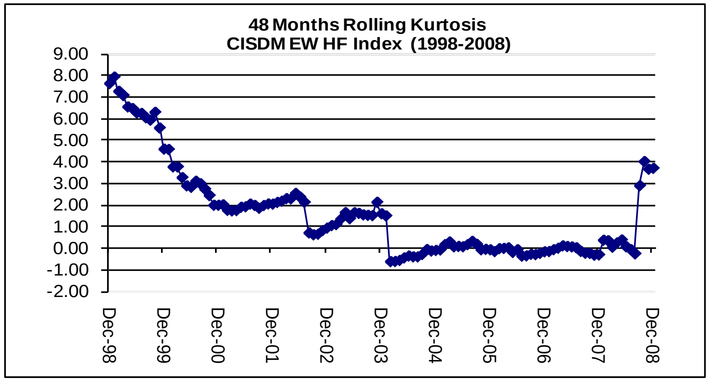
Myth 21: Hedge Fund Distributions Are Normally Distributed.

Answer: Most investment strategies are normally distributed such that the first two moments of the distribution describe the probability distribution. However, over various historical time periods, a strategy may show significant skew and/or kurtosis. Unless created by the use of options, this deviation from normality may be affected by factors such as funds changing leverage etc... Therefore, historical data may not represent the fact that the distribution remains normal over time despite a changing variance. An historical sample can appear not to have normal characteristics since its historical distribution is impacted by changing distributional forms.



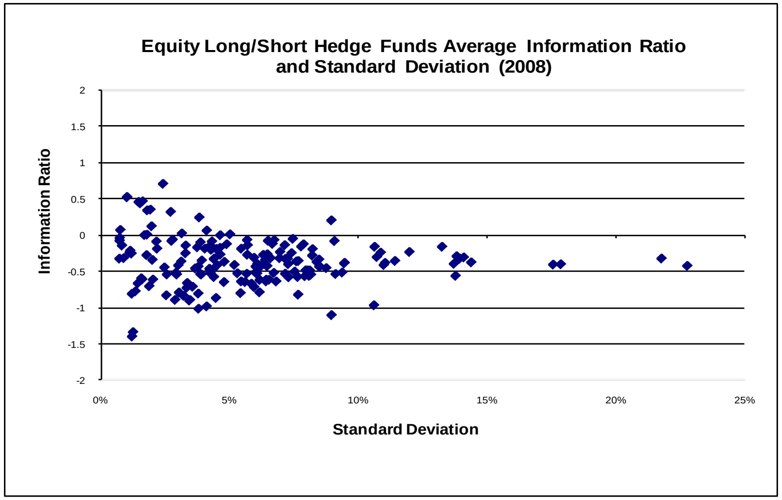


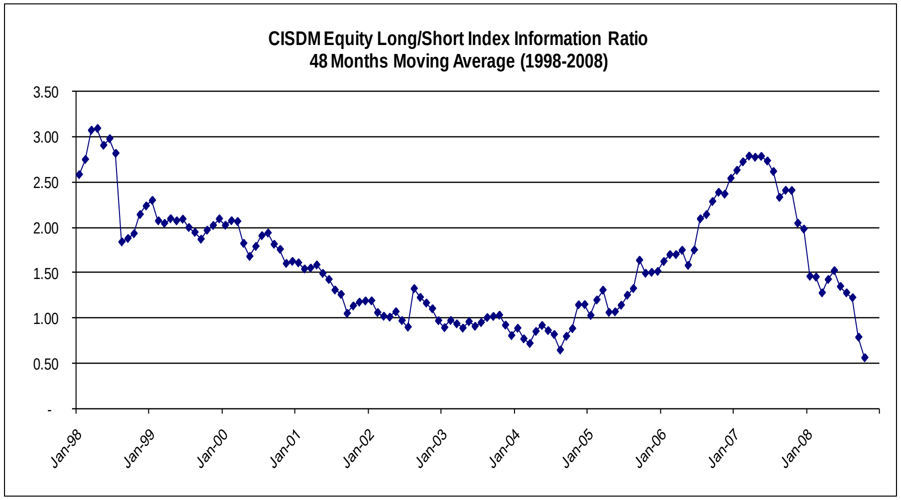




Myth 22: Information Ratios Can Provide A Clear Basis For Performance Comparison.

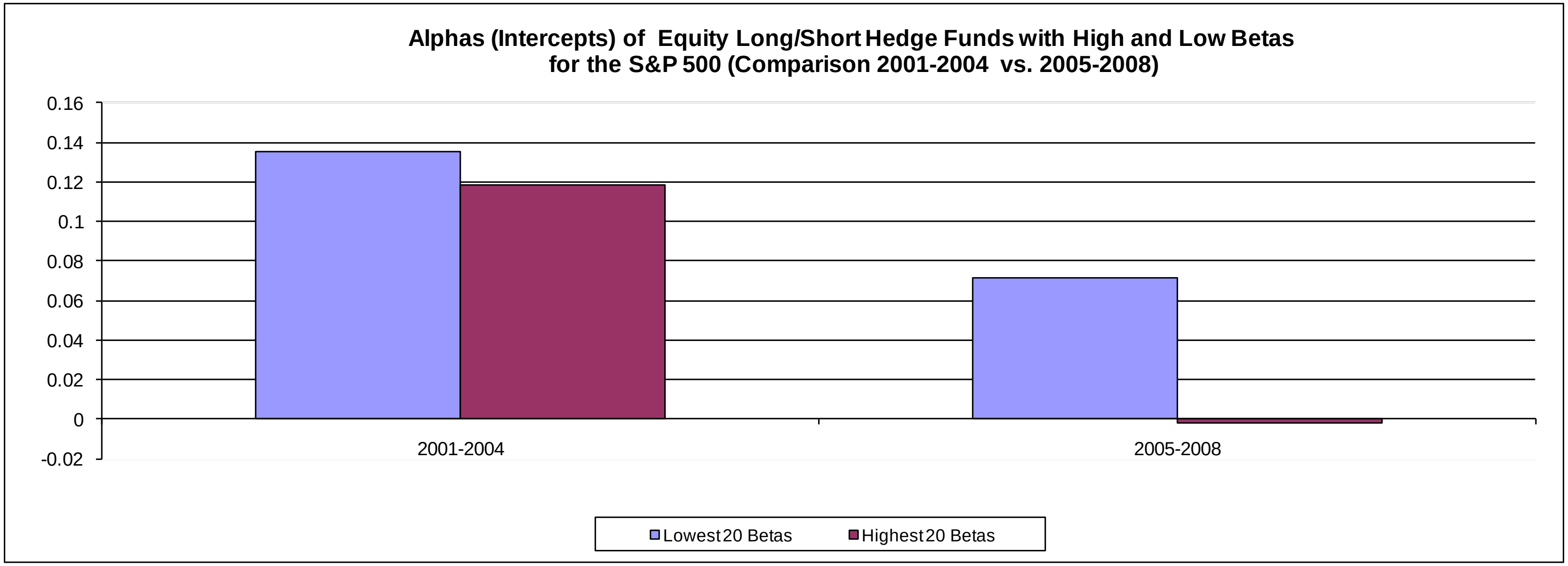
Answer: Information and Sharpe ratios are misleading to the degree that the past may not reflect the future. In addition, in periods of negative mean returns, funds with high standard deviation may report the highest information ratios since this would result in the lowest negative number.





Myth 23: Alphas Provide A Basis For Performance Comparisons.

Answer: Alphas are measured using a number of alternative expectation models. They can be misleading to the degree that the past may not reflect the future and that the models used to generate the alpha estimate are misrepresentative or underspecified. Research has shown that fund returns are mean reverting, i.e. funds with high returns, alpha, or Sharpe ratios in one period often have lower returns, Sharpe ratios, and alphas in the next period. One reason for this is the impact of parameter estimation error. Simply put, funds with estimated betas higher than the true beta will have low alpha for the same period, while funds with estimated betas lower than the true beta will have higher alphas for the same estimation period.



Myth 24: Hedge Fund Diversification Is A Free Lunch.

Answer: There is never a free lunch if risks are properly measured. The more important issue is that not taking advantage of portfolio risk reduction is in fact leaving a large tip on the table, since holding undiversified risk is uncompensated return. Not holding hedge funds increases the risk-adjusted cost of the lunch.

Traditional Asset Classes	Weights	Sub Total
U.S. 30 Day TBill TR	5.0%	
SB 1 Yr On-The-Run Treasury TR	5.0%	10%
SB 3-7 Yr Treasury TR	5.0%	
SB 10+ Yr Treasury TR	10.0%	
SB Hi-Yld TR	5.0%	
SB AAA/AA Corp TR	10.0%	30%
Russell 1000 TR	40.0%	
Russell 2000 TR	10.0%	50%
MSCI EAFE TR	5.0%	
MSCI Emerging Market Free USD	5.0%	10%

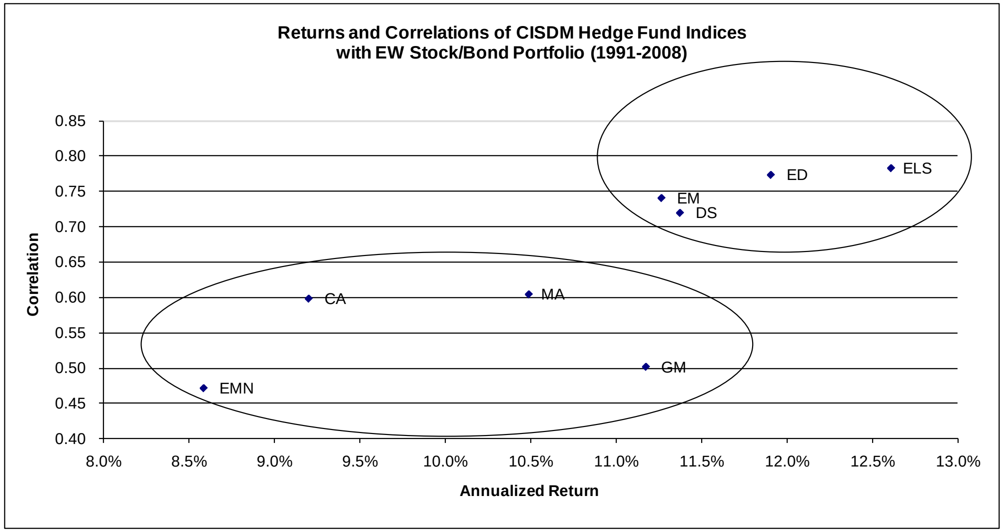
	Change in Weights									
U.S. 30 Day TBill TR (Total Return)	-3.5%	-2.0%	-2.7%	-4.5%	-4.1%	-1.1%	-3.6%	-3.7%	-5.0%	-3.7%
SB 1 Yr On-The-Run Treasury TR (Total Return)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SB 3-7 Yr Treasury TR (Total Return)	0.0%	0.0%	0.0%	0.0%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
SB 10+ Yr Treasury TR (Total Return)	0.0%	0.0%	0.0%	0.0%	-0.1%	-1.9%	0.0%	0.0%	0.0%	-0.6%
SB Hi-Yld TR (Total Return)	-1.3%	-2.4%	0.0%	-0.3%	0.0%	-0.7%	-0.9%	-1.0%	0.0%	-0.1%
SB AAA/AA Corp TR (Total Return)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Russell 1000 TR (Total Return)	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.5%
Russell 2000 TR (Total Return)	-0.1%	-0.4%	-1.9%	0.0%	-0.2%	-0.5%	-0.4%	-0.3%	0.0%	0.0%
MSCI EAFE TR (Total Return)	0.0%	0.0%	-0.2%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%
MSCI Emerging Market Free USD	-0.1%	-0.3%	-0.1%	-0.2%	0.0%	-0.6%	0.0%	-0.1%	0.0%	0.0%
HFRI Convertible Arbitrage Index	**5.0%**									
HFRI Distressed Securities Index		**5.0%**								
HFRI Equity Hedge Index			**5.0%**							
HFRI Fixed Income: Arbitrage Index				**5.0%**						
HFRI Equity Market Neutral Index					**5.0%**					
HFRI Macro Index						**5.0%**				
HFRI Merger Arbitrage Index							**5.0%**			
HFRI Relative Value Arbitrage Index								**5.0%**		
HFRI Short Selling Index									**5.0%**	
HFRI Statistical Arbitrage Index										**5.0%**
Performance Comparison										
Annualized Mean of Port With Hedge Fund	11.13%	11.21%	11.49%	11.05%	11.14%	11.32%	11.17%	11.23%	10.87%	11.09%
Annualized Std of Port With Hedge Fund	9.43%	9.41%	9.44%	9.39%	9.43%	9.43%	9.43%	9.43%	8.53%	9.43%
Annualized Mean of Trad Asset Class	10.88%	10.88%	10.88%	10.88%	10.88%	10.88%	10.88%	10.88%	10.88%	10.88%
Annualized Std of Trad Asset Class	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%
Alpha of Port with Hedge Funds	0.25%	0.33%	0.61%	0.18%	0.26%	0.44%	0.29%	0.36%	0.00%	0.21%
Sharpe Ratio of Port with Hedge Funds	0.66	0.67	0.70	65.39%	66.02%	67.94%	66.35%	67.06%	69.86%	65.49%
Sharpe Ratio of Trad Asset Class	0.63	0.63	0.63	63.22%	63.22%	63.22%	63.22%	63.22%	63.22%	63.22%
Correlation Between the 2 Portfolios	1.00	1.00	1.00	99.97%	99.99%	99.94%	99.98%	99.99%	99.67%	99.99%

Note higher return at same level of risk.
Simply replace similar type traditional asset with hedge fund.

Myth 25: All Hedge Funds Are Equity Diversifiers.

Answer: Some hedge funds should be viewed as equity diversifiers, others as equity return enhancers, depending on their correlation with equity indices. Other hedge funds are bond-like and offer little diversification to bond portfolios. The diversification benefits are existing portfolio and hedge fund strategy dependent.

	Portfolio Risk and Return Contribution		
Hedge Fund Strategy	**Stock Portfolio**	**High Grade Bond Porfolio**	**High Yield Bond Portfolio**
Equity Market Neutral	Risk Diversifier	Return Enhancer	Risk Diversifier
Arbitrage	Risk Diversifier	Risk Diversifier	Return Enhancer
Convertible Arbitrage	Mixed	Risk Diversifier	Return Enhancer
Event-Driven	Return Enhancer	Risk Diversifier	Return Enhancer
Merger Arbitrage	Return Enhancer	Risk Diversifier	Return Enhancer
Distressed	Return Enhancer	Risk Diversifier	Return Enhancer
Hedge Equity	Return Enhancer	Risk Diversifier	Return Enhancer
CTA	Risk Diversifier/Return Enhancer	Risk Diversifier/Return Enhancer	Risk Diversifier/Return Enhancer



Myth 26: Modern Portfolio Theory Is Too Simplistic To Deal With Hedge Funds.

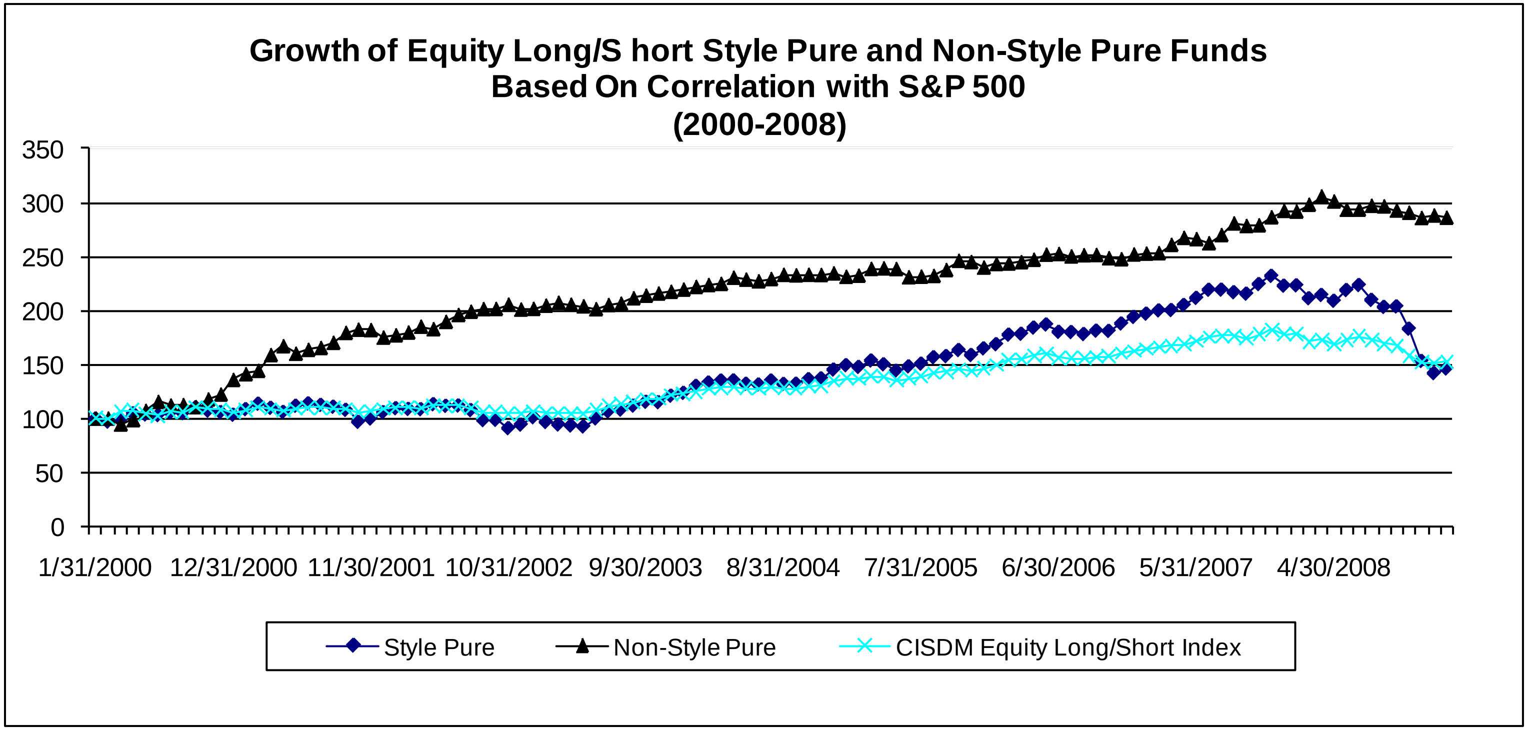
Answer: Modern portfolio theory shows a number of concerns in providing a basis for forecasting expected risk and return relationships: 1) Return estimates dominate results – where do you get them from? 2) Most programs are based on mean and variance – if assets are non-normal or if investor has different risk concerns (e.g. liquidity), results may not reflect investor needs. 3) How many different kinds of assets (classes) should a portfolio include? Your model needs flexibility when capturing these issues.

Asset Classes	Current Weights	New Weights	Min	Max	Expected Returns
S&P 500		71%	0	100%	10%
Russell 2000		19%	0	100%	12%
Barclays Government			0	0	4%
Barclays Aggregate			0	0	6%
Barclays Corporate High Yield			0	0	8%
CISDM EW Hedge Fund Index	100%	10%	0	10%	12%
CISDM EW CTA Index			0	0	14%

Note: Consider Min and Max Constraints as well as the use of Expected Returns

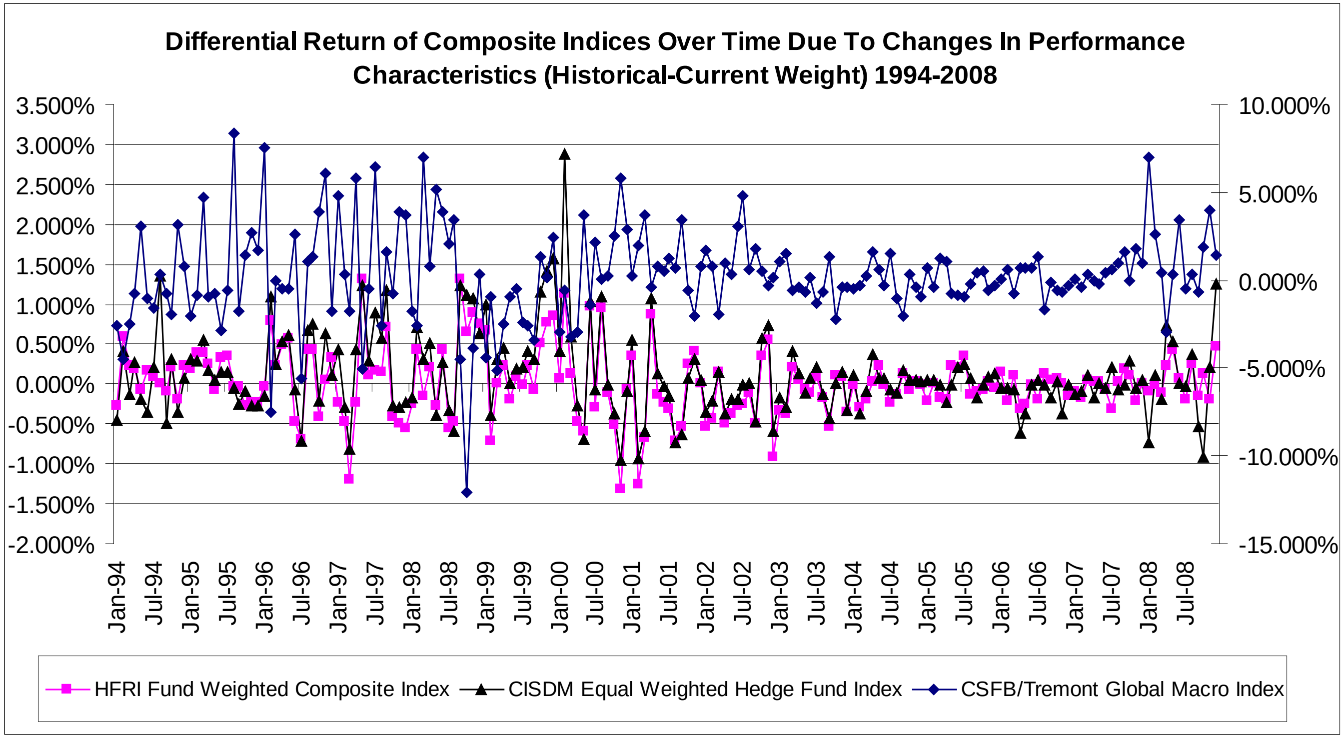
Myth 27: Style Purity Does Not Affect Fund of Funds.

Answer: It all depends. Fund of Funds can be created from hedge funds that differs in market sensitivity and, therefore, have reduced risk or one in which the underlying returns of the various managers are more closely aligned. The first offers the potential for positive return over varying market environments but with little certainty of when it will perform well. The second offers greater return consistency but lower return in certain market environments.



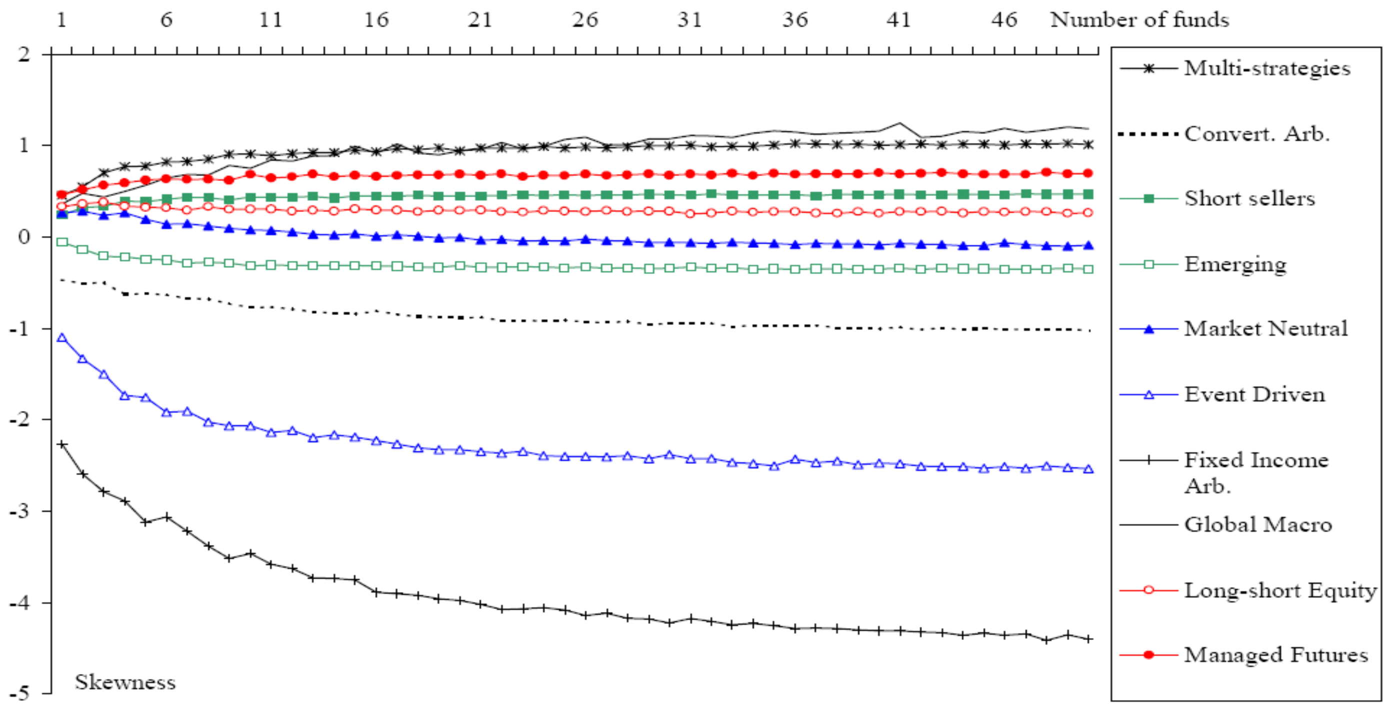
Myth 28: Historical Hedge Fund Indices Reflect Current Performance.

Answer: Hedge fund indices which represent overall market returns are available for the hedge fund industry. Unfortunately, most indices track the full range of fund managers rather than style-pure subsets. Therefore, their performance characteristics change over time when the characteristics of the reporting funds change. As a result, for hedge funds, non-style pure indexes past returns may not reflect current or future returns of the index.



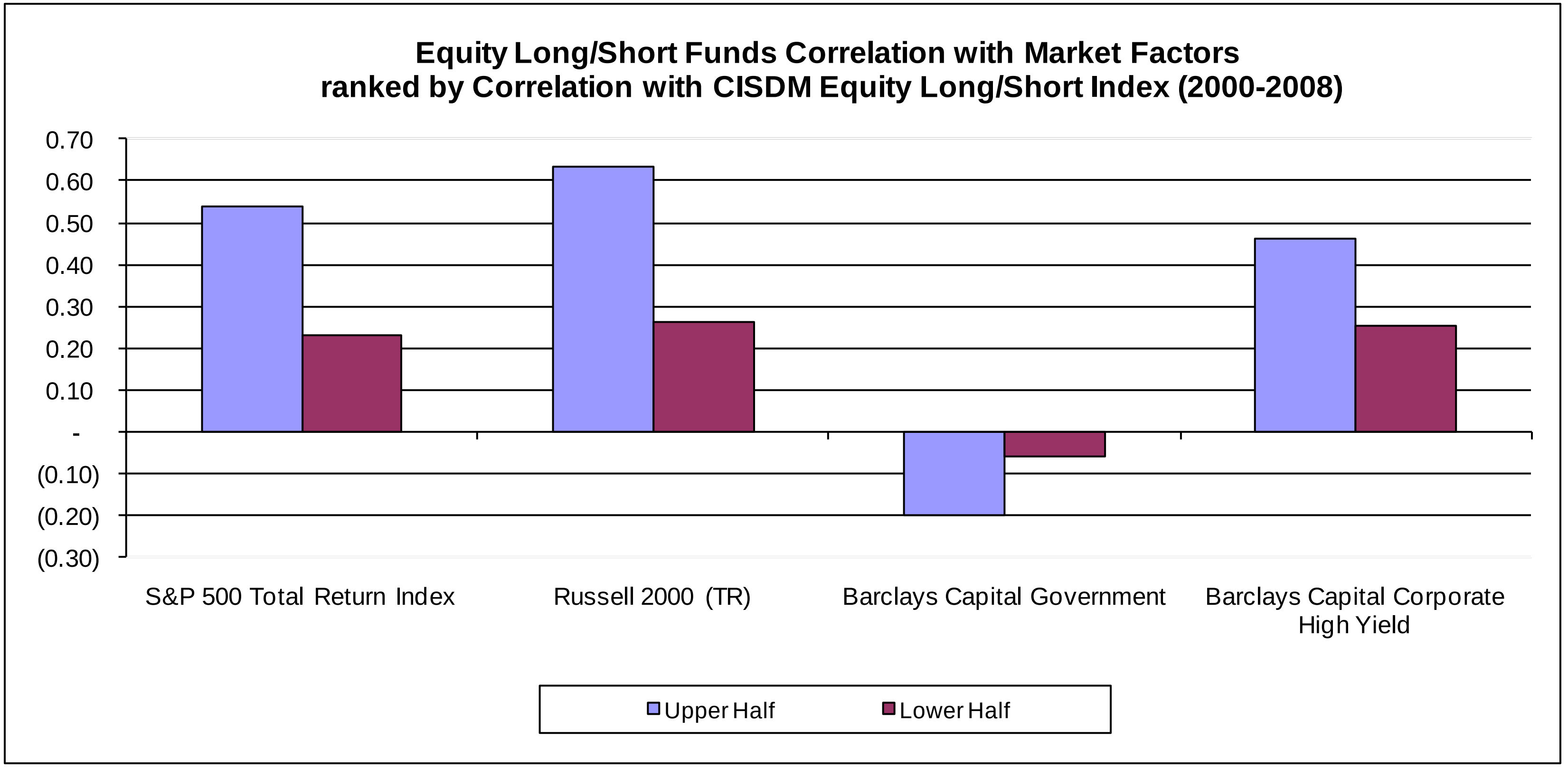
Myth 29: Skewness At The Fund Level Reflects Skewness At The Fund Of Fund Level.

Answer: Hedge funds are not necessarily positive or negative skewed unless the strategy itself demands it. Moreover, for traditional assets, the skewness is time varying. Lastly, given the skewness of traditional markets, skewness at the fund level tells you nothing about skewness at the portfolio level.



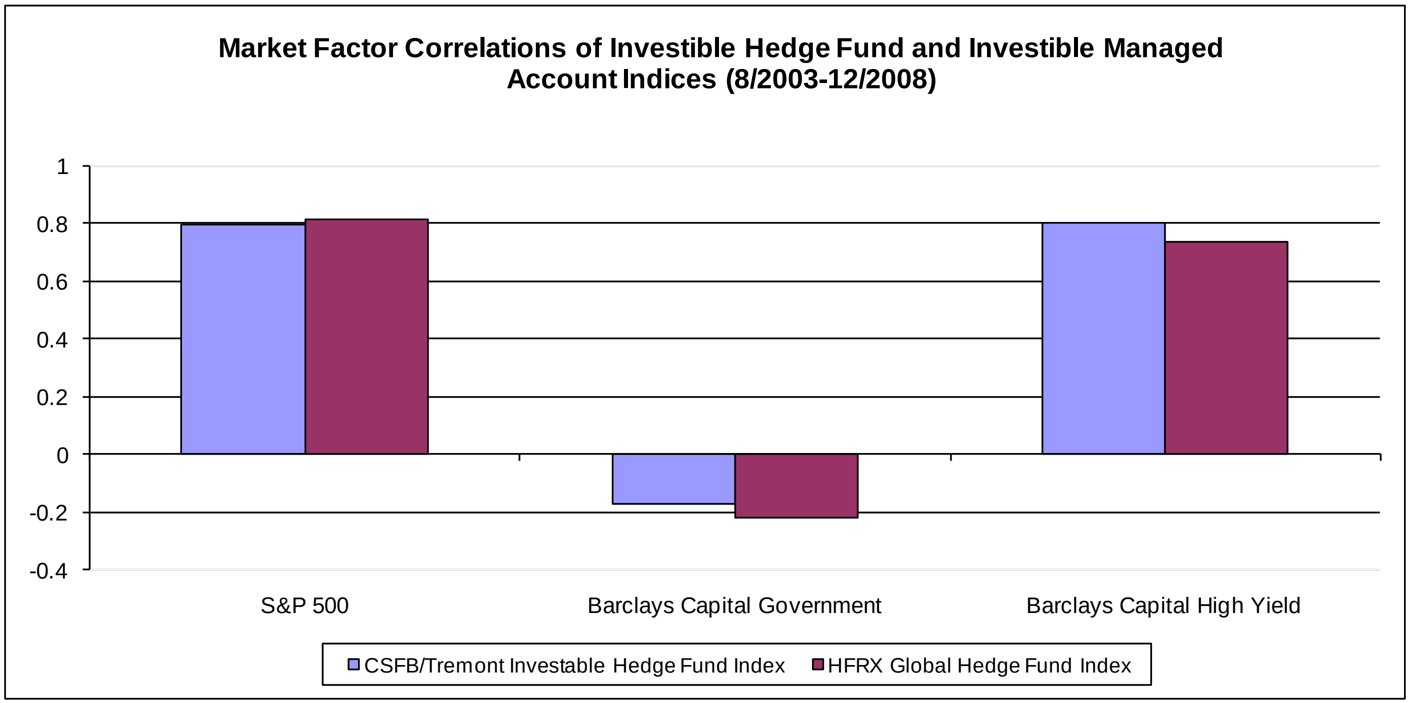
Myth 30: Hedge Funds Are Style Pure.

Answer: Many investors purchase hedge funds with the assumption that the fund will react to market conditions in a certain way (e.g. convertible bonds are profitable when credit spreads decline). Absent style purity, the market sensitivities of the funds may not reflect investor expectations.



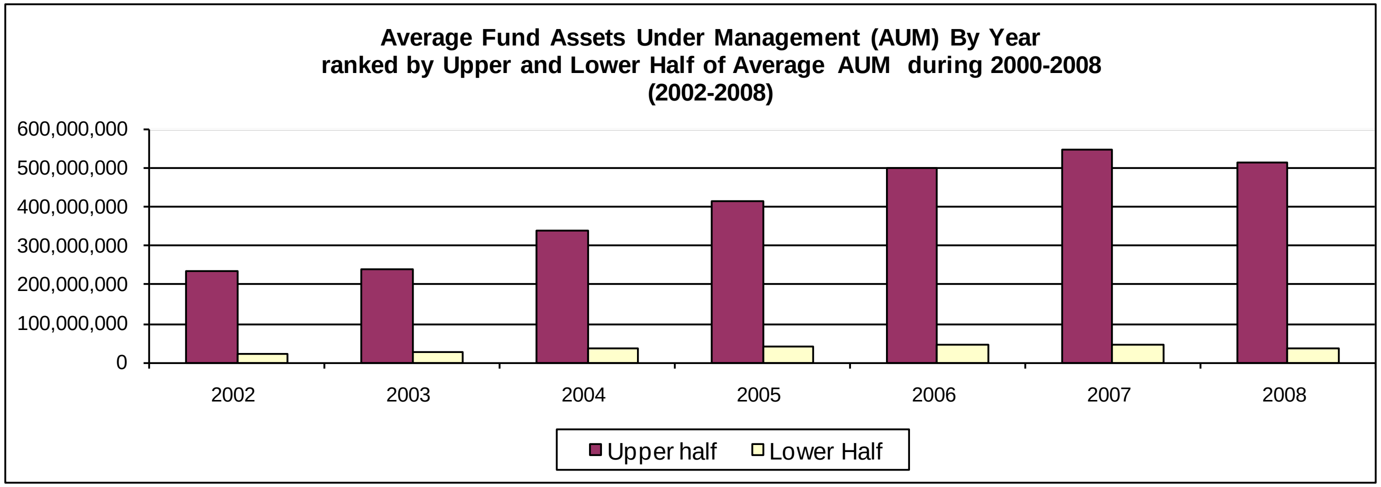
Myth 31: Managed Accounts Perform Differently Than Funds.

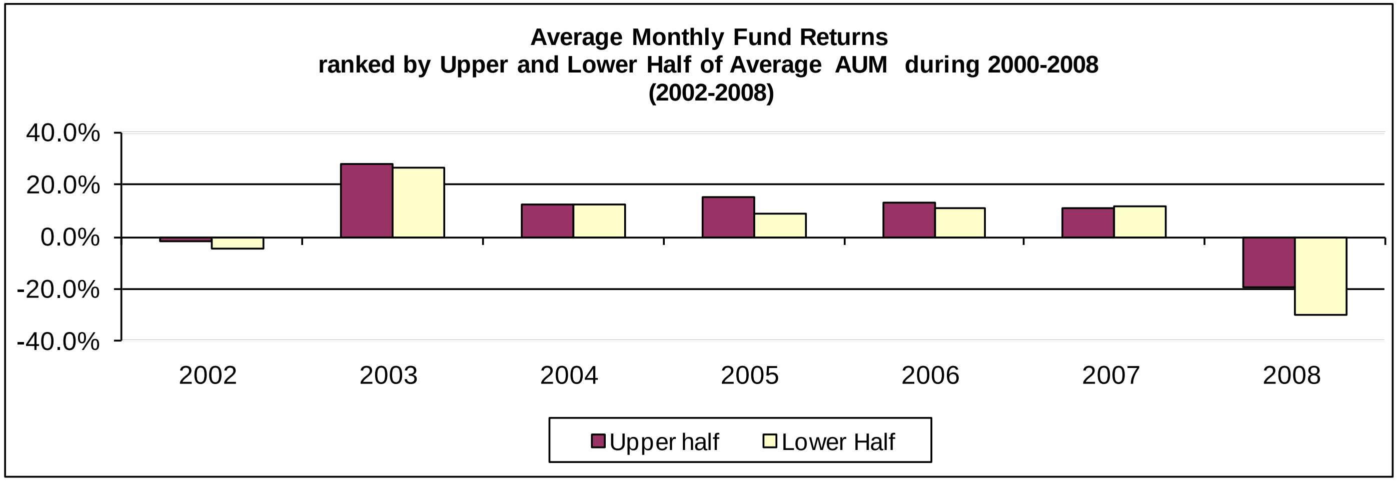
Answer: Managed accounts perform similarly to funds in the same strategy area. Note that the return differential between managed accounts and the fund-based strategy indices are not significantly different. Additional research has indicated that these results are similar for other investment strategies.



Myth 32: Size Does Not Affect Performance.

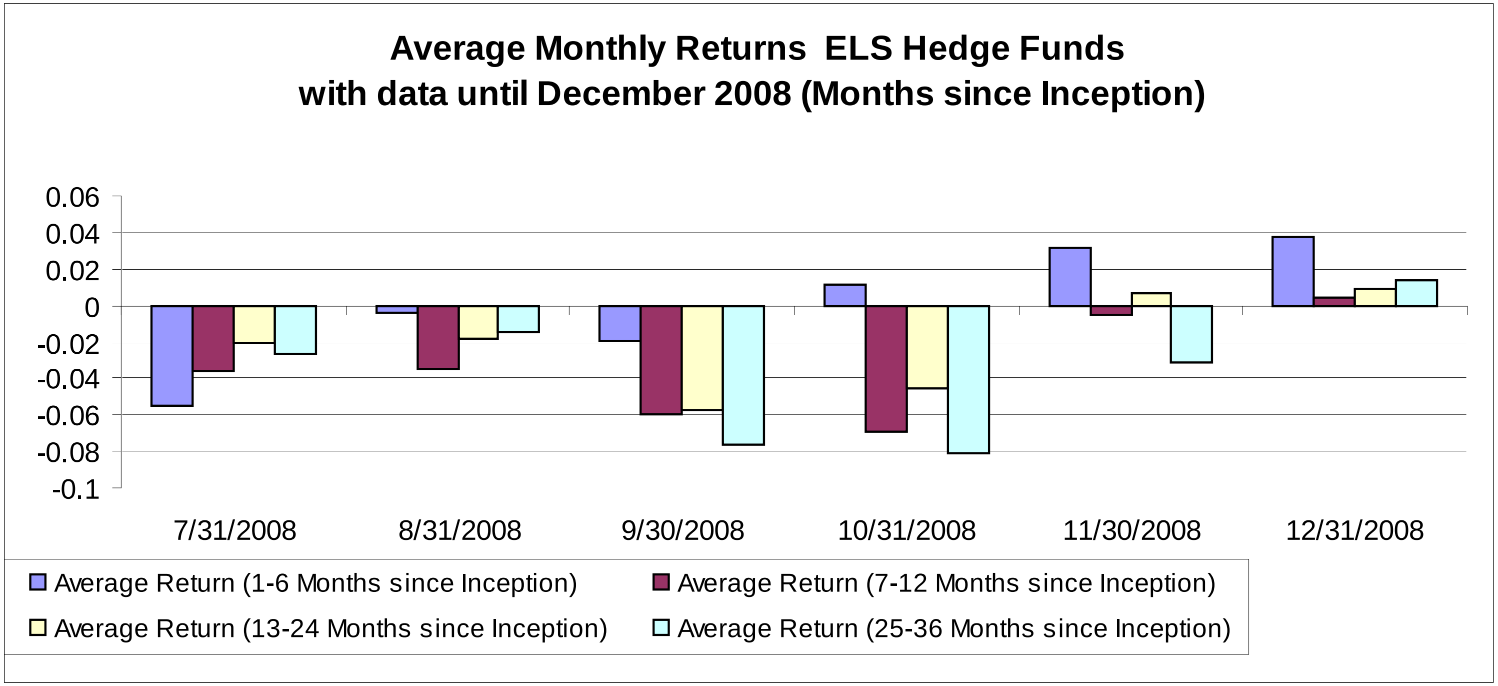
Answer: There is little consistent relationship between fund size and fund performance. Size can be the result of value change or marketing efforts. Size may have certain advantages (e.g. better prime broker arrangements) as well as disadvantages (market impact).





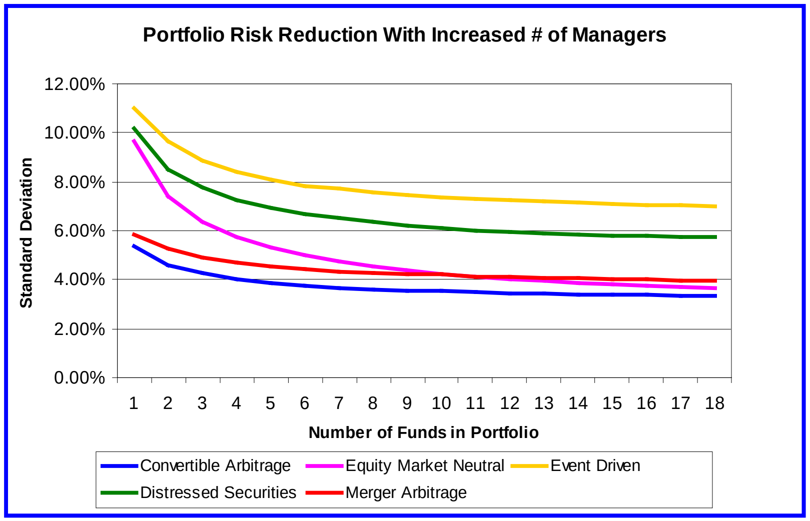
Myth 33: Hedge Funds Perform The Same In Early As In Later Years.

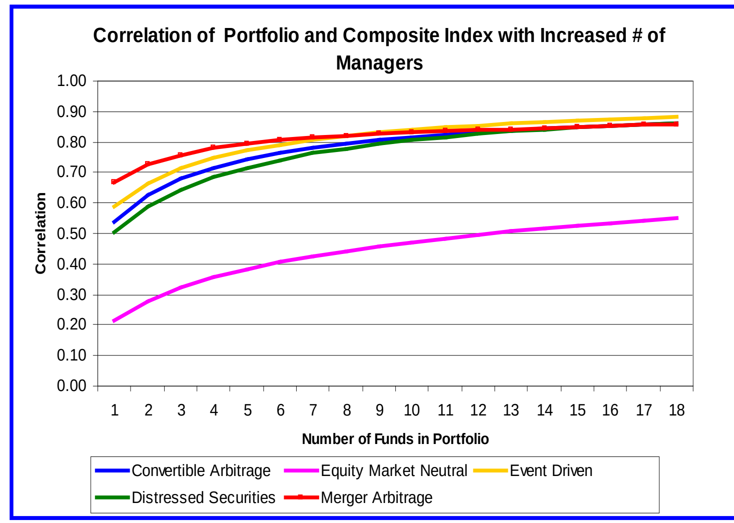
Answer: The graph below depicts the relative performance of new funds as they age. Results are similar to previous research which indicates that funds with a few months of existence report higher returns over the same period relative to similar funds with longer periods since inception.



Myth 34: A Single Fund Offers Hedge Fund Representation.

Answer: Sharpe grouped the portfolio decision into two parts; diversification of style (diversify across asset classes to reduce market risk) and diversification of judgment (diversify within asset class to reduce manager risk). While multiple hedge fund strategies may help diversification of style, how many managers in a style-pure Fund of Funds are required to reduce diversification of judgment? The answer seems to be at least five or six.





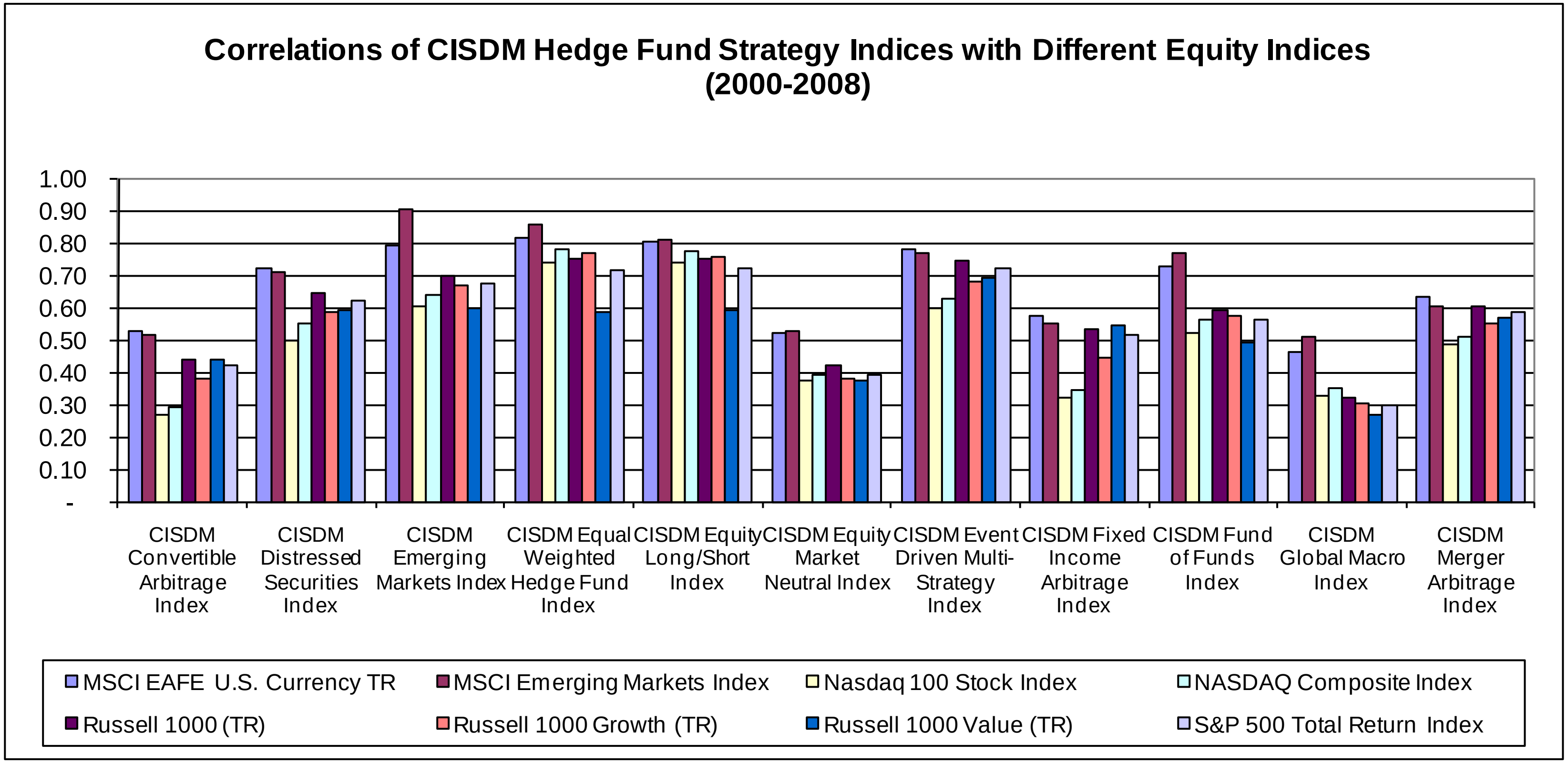
Myth 35: There Is Only One Way To Forecast Hedge Fund Performance.

Answer: There are different ways to forecast hedge fund return. However, in all cases, one should relate expected return to expected risk.

1994-2008	CISDM Equal Weighted Hedge Fund Index	1994-9/2008	CISDM Equal Weighted Hedge Fund Index	1994-9/2008	CISDM Equal Weighted Hedge Fund Index
Coefficients		*Coefficients*		*Coefficients*	
Intercept	0.01	**Intercept**	0.01	**Intercept**	0.01
S&P 500	0.11	S&P 500	0.11	S&P 500	0.11
Russell 2000	0.25	Russell 2000	0.25	Russell 2000	0.24
Barclays Gov.	0.04	Barclays Gov.	0.01	Barclays Gov.	0.05
Baraclay HY.	0.07	Baraclay HY.	0.12	Baraclay HY.	0.13
		PTFSFX	0.00	MFSB Currency Subindex	-0.01
		PTFSBD	-0.01	MFSB Interest Rate Subindex	-0.15
		PTFSCOM	0.01	MFSB Physicals Subindex	0.04
		PTFSSTK	0.01	MFSB Stock Subindex	0.04
Standard Errors		*Standard Errors*		*Standard Errors*	
Intercept	0.00	**Intercept**	0.00	**Intercept**	0.00
S&P 500	0.03	S&P 500	0.03	S&P 500	0.03
Russell 2000	0.03	Russell 2000	0.03	Russell 2000	0.03
Barclays Gov.	0.07	Barclays Gov.	0.08	Barclays Gov.	0.08
Baraclay HY.	0.05	Baraclay HY.	0.06	Baraclay HY.	0.06
		PTFSFX	0.00	MFSB Currency Subindex	0.07
		PTFSBD	0.01	MFSB Interest Rate Subindex	0.09
		PTFSCOM	0.01	MFSB Physicals Subindex	0.04
		PTFSSTK	0.01	MFSB Stock Subindex	0.04
T-Stat		*T-Stat*		*T-Stat*	
Intercept	6.03	**Intercept**	5.92	**Intercept**	5.63
S&P 500	3.48	S&P 500	3.20	S&P 500	3.42
Russell 2000	9.27	Russell 2000	9.27	Russell 2000	9.21
Barclays Gov.	0.60	Barclays Gov.	0.16	Barclays Gov.	0.63
Baraclay HY.	1.58	Baraclay HY.	2.18	Baraclay HY.	2.25
		PTFSFX	0.09	MFSB Currency Subindex	-0.17
		PTFSBD	-1.57	MFSB Interest Rate Subindex	-1.59
		PTFSCOM	1.01	MFSB Physicals Subindex	1.20
		PTFSSTK	1.33	MFSB Stock Subindex	1.15
R2	0.70	*R2*	0.71	*R2*	0.71

Myth 36: All Hedge Funds Can Be Compared To The S&P 500.

Answer: Many hedge fund managers compare themselves to the S&P 500 and find little correlation and therefore call themselves risk free or absolute return managers. Many hedge fund strategies are correlated with market factors other than the S&P 500 and therefore the S&P 500 should not be used in these cases.



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