Book review

HEDGE FUND AND INVESTMENT MANAGEMENT

by Izzy Nelken

*Butterworth-Heinemann/Elsevier, Oxford, 2006; ISBN 13:978-0-7506- 6007-5;
US\$64.95; £40*

This nice compilation of articles written by well-known and successful hedge fund managers and orchestrated by Dr Nelken, an expert in the area of financial mathematics, provides an in-depth view of the current and hot topics in the hedge fund industry. From going offshore to careers in the hedge fund industry right up to the mistakes one should avoid when it comes to hedge fund investing, this will certainly provide value added for academics, investors, accountants, lawyers, portfolio managers and curious investors wanting to know more about this mysterious world of privately managed money. Everything you always wanted to know and to get a detailed view of in the hedge fund industry is well documented in this edited book with original articles.

The chapter on commodities trading advisers informs the reader that commodities investing can reduce the volatility of a portfolio and enhance returns because of the low correlation of these instruments with traditional stock and bond markets, and looks at how commodities can complement a portfolio of hedge funds for downside protection and risk management. The chapter also examines the absolute returns commodity futures investments and

how these products tend to provide traditional portfolios with added diversification and a solid protection against creeping inflation.

The chapter by Professor Kat, a leading academic in this industry, informs the reader that the data on hedge funds may be far from perfect and that the various hedge fund indices available may behave differently. This chapter further examines the true risk of hedge funds, which is typically gravely underestimated along with the famous Sharpe ratios which may be misleading for evaluating hedge funds.

With the current boom occurring in the \$8 trillion mortgage industry, a small group of hedge funds have expressed interest in this liquid and leveraged area. The author shows how this mortgage hedge fund investing can further diversify a portfolio as a result of their different trading strategies and structures from the typical and conventional hedge funds.

Although the last chapter is somewhat technical in nature, it offers the reader a way of ranking schemes and portfolio selection using different measures in a modern portfolio theory setting. A good addition is the chapter on structured products, which explains the typical

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advantages they have over conventional hedge funds in terms of superior risk management, greater liquidity and, of course, principal protection.

In conclusion, Dr Nelken has put together a complementary collection of important articles by well-known and successful hedge fund managers, academics and consultants in the industry today. This book will benefit the reader and keep him/her up-to-date with the current trends

in this industry. A must read for every investor interested in hedge fund investing.

*Greg N. Gregoriou
Hedge Fund Editor
Associate Professor of Finance and
Coordinator of Faculty Research
School of Business and Economics,
State University of New York
(Plattsburgh), USA*