COURSE DESCRIPTION

This course will provide students with a solid and working understanding of hedge funds. The course will not only cover an overview of the hedge fund industry, but also provide students with a strong understanding of more than a dozen hedge fund strategies, including equity long/short, global macro, statistical arbitrage, merger arbitrage, convertible arbitrage, and fixed income arbitrage. The course will make extensive use of Excel spreadsheets to model specific hedge funds strategies and will also include live instruction on using cutting-edge Internet resources. In my view, often the best way to learn is by doing, so students will also manage a simulated $1 million hedge fund portfolio and design and present a hedge fund investment strategy group project.

COURSE MATERIALS

*The text does not cover everything so it will be supplemented with additional material in my lectures or on the Blackboard Account. You are responsible for this material, so please get the notes from a fellow student in the event that you miss a class.*

Blackboard Account: (*IMPORTANT*) Homework solutions, sample projects, lecture material, and other information will be placed on the Blackboard Account for the course.

**Homework:** I will assign some homework problems that will help prepare you for the exams, but I will not collect/grade them. The incentive to do the homework is that there will be some similar problems on the exam. The solutions will be placed on the Blackboard Account. If you do not understand the solutions then please see me during the office hours or contact me via email. Time permitting, we will review selected homework problems during class.

**Grading:** Midterm (35%); Group Project (20%); Cumulative Final (45%)

*Exams will be a combination of multiple choice and quantitative or qualitative problems. The material on the exams will be similar to things discussed in class, the text, or in the homework problems.*
**Class Participation:** Strongly encouraged and will help in borderline cases. I believe maximum benefit will be obtained from the instructor and students discussing their experiences, when relevant, in the context of the course material.

**Rutgers Business School Honor Code Pledge:** Rutgers Business School attempts to ensure that its students have a solid foundation that is grounded in integrity and respect for basic ethical principles. Rutgers University, in conjunction with RBS, has established an Honor Code that includes this pledge:

“I pledge, on my honor, that I have neither received nor given any unauthorized assistance on this examination (assignment).”

RBS requests that all faculty add the Honor Pledge and Academic Integrity website link to their syllabi. The link is: [http://academicintegrity.rutgers.edu/academic-integrity-at-rutgers](http://academicintegrity.rutgers.edu/academic-integrity-at-rutgers).

**Hedge Fund Portfolio Simulation:**

Students will build and manage a simulated hedge fund portfolio throughout the course, starting on September 22nd. We will use Investopedia.com to run the simulation. To encourage you to put effort into the simulation, we will do the following. The student with the maximum portfolio value on November 28th (close of trading day) will get the equivalent of a 95 on the Final Exam (thereby likely exempting the student from the Final Exam with an A Grade). Any student who underperforms the S&P 500 by more than 10% (e.g. S&P is up 5% and you are down more than 5%) will have 5 points subtracted from their Final Exam Score (e.g. 75 score on Final Exam is adjusted downward to 70). Conversely, any student who outperforms the S&P 500 by 10% will get 5 points added to their Final Exam score. **IMPORTANT: You must use your real name or else you will not be eligible for one of the “prizes.”**

To ensure proper diversification, you cannot invest more than $100,000 in any individual stock, bond, mutual fund, or ETF. In addition, you cannot trade in any stock with a price < $5 per share. Most hedge fund strategies utilize a significant hedge, perhaps with the exception of Global Macro. Therefore, your portfolio must include at least $250,000 in short sale or inverse ETF positions **by the end of September.** I will provide you with further instructions that will be necessary in order to join the competition.

**Group Project:** (Group of 3 or 4 students) Create and test a hedge fund strategy, produce a “pitch book” and present your findings to the class. The project should include a discussion of historical and projected risk adjusted returns, as well as a risk management plan. We will discuss many hedge fund strategies and strategies of successful hedge fund investors in class. This material may help spur ideas that will ultimately lead to your proposed hedge fund strategy. The bulk of the grade will be based on content, but your pitch book should also be well written and look professional. You should supplement your report with charts and tables to support your case.

The project is due November 17th and there will be a penalty for lateness. All students in the group will receive the same grade regardless of the amount of work done; therefore choose your partners wisely.
The ability to contribute to and impress others at meetings is an essential business skill. Therefore, the last two weeks of class will be devoted to a discussion of the projects. Each group will present their findings in a crisp 20-minute oral presentation. Everyone in the group must speak. The project is worth 20% of your grade (about 15% for the written report and 5% for the oral presentation).

OUTLINE FOR HEDGE FUNDS (TENTATIVE)

To get the maximum benefit from the course, it is strongly recommended that you read the appropriate chapters before class and print out the PowerPoint presentations for each chapter (these may be found on the Blackboard Account).

Sep 8: Chapter 1: Introduction to Hedge Funds; Behavioral Finance (Blackboard material)

Sep 15: Chapter 3: Short Selling; Chapter 4: Long / Short Equity Strategies

Sep 22: Fundamentals of Technical Analysis (Blackboard Material); Chapter 14: Global Macro Strategies

Sep 29: Chapter 2: Arbitrage; Chapter 7: Fixed-Income Hedge Fund Strategies.

Oct 6: Review of Derivatives (Blackboard Material); Chapter 13: Managed Futures Funds

Oct 13: Chapter 5: Merger Arbitrage Hedge Fund Strategies; Chapter 10: Distressed Securities

Oct 20: MIDTERM

Oct 27: Chapter 11: Event-Driven or Special Situations Hedge Fund Strategies; Review of Midterm

Nov 3: Chapter 6: Convertible Bond Arbitrage Strategies; Chapter 12: Multi-strategy Funds

Nov 10: Funds of Hedge Funds (Blackboard Material); Hedge Fund Due Diligence (Blackboard Material)

Nov 17: (* Projects Due *) Chapter 16: Hedge Fund Performance Analysis (Blackboard Material); Hedge Fund Risk Management (Blackboard Material).

Nov 24: Student Presentations / Group Projects;

Dec 1: Student Presentations / Group Projects; Course Review

Dec 8: Final Exam