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HEDGE FUNDS: A COMPARATIVE STUDY OF IMPACT AND PERFORMANCE OF LOCAL AND FOREIGN FUNDS IN INDIAN MARKET

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Abstract

This study analyses the impact and performance of foreign funds in Indian market. Hedge fund is pooling of funds that generate returns at reduced risks and initiate arbitrage by buying and selling equities, trades bonds, commodities, currencies, convertible securities and other derivative products. It pools the funds and invests in different aspects to hedge the risk of the investor. Hedge funds are relatively new in India among various investment opportunities. Hedge funds also provide innumerable perks and bonuses to hedge fund managers who provide extremely complicated investment solutions to investors. This study tires to know the dominance of hedge funds in terms of asset under management and compares the local and foreign funds in Indian market from the point of view of returns they yield. The study uses secondary data for data collection and analysis. It is found that India-focused hedge funds based in the country have typically outperformed those based outside the country.

***Keywords**: Foreign Funds, Hedge Fund, Equities, Trades Bonds, Commodities, Convertible Securities.*

Introduction

Hedge fund is a private investment partnership and pool of money that uses different and complex proprietary strategies and invests the pooled funds into listed and unlisted derivatives. To make it simple, hedge fund is pooling of funds that generate returns at reduced risks and initiate arbitrage by buying and selling equities, trades bonds, commodities, currencies, convertible securities and other derivative products. Hedge fund tries to hedge the risks to investor's capital against market instability by introducing alternative investment approaches. Alfred Winslow, a former writer and socialist launched the first hedge fund in 1949, through his company, the A.W. Jones & Co. He raised $100,000 including $40,000 out of his own pocket and tried to minimise the risk of holding long term stock positions by short selling other stocks. Jones also employed leverage to draw better results. This investing innovation b Jones is now referred to as the classic long/short equities popular today as hedge funds.

Definitions

Hedge funds say that funds are meant to hedge the investment through various techniques from the potential fluctuations in terms of losses in the markets. The hedge funds returns do not get affected by the direction of the underlying market. This type of hedge funds accounting is achieved by:

- Investing in the safer areas that are less likely to be affected by drop in markets
- Marketing through derivative methods as opposed to direct market exposure
- Holding defensive instruments like cash in times of market failure
- By taking short as well as long market positions and negating the market exposure

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