

Financial Analysts Journal >
Volume 59, 2003 - Issue 5

135 | 8 | 0
Views | CrossRef citations to date | Altmetric

ALTERNATIVE INVESTMENTS

Predictability in Hedge Fund Returns (corrected)

Noël Amenc, Sina El Bied & Lionel Martellini

Pages 32-46 | Published online: 02 Jan 2019

 Cite this article  <https://doi.org/10.2469/faj.v59.n5.2562>

Sample our
Law
Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

 References

 Citations

 Metrics

 Reprints & Permissions

Read this article

Abstract

A significant amount of research has been devoted to the predictability of traditional asset classes, but little is known about the predictability of returns emanating from alternative vehicles, such as hedge funds. We attempt to fill this gap by documenting evidence of predictability in hedge fund returns. Using multifactor models for the return on nine hedge fund indexes, for which the factors were chosen to measure the many dimensions of financial risk, we found strong evidence of significant predictability in hedge fund returns. We also found that the benefits of “tactical style allocation”

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

The consensus now in empirical finance is that the expected returns (and also the variances and covariances) of traditional assets, such as stocks and bonds, are to some extent predictable. But little is known about the predictability of returns emanating from alternative investment vehicles, such as hedge funds. Also, and not surprisingly given the absence of academic evidence on the predictability of hedge fund returns, little is known about the performance of tactical asset allocation involving hedge funds. In particular, although the out-of-sample performance of optimal strategic asset allocation decisions based on alternative investment vehicles has recently been documented, no such evidence is available on the ability of investors to generate superior risk-adjusted returns based on timing among various hedge fund styles.

We also found that the benefits of tactical style allocation are potentially enormous. The article first provides evidence of the economic significance of the performance of hedge fund style-timing models by comparing the performance of a market timer with perfect forecasting ability to the performance of a market timer with the performance of a

Accept All

Settings

lockup periods, which are typical of investments in hedge funds, are likely to prevent investors from implementing any kind of dynamic allocation among funds. We believe, however, that the future of hedge fund style timing is even brighter than its past or present. The hedge fund industry is still relatively new, and market conditions are evolving at an astounding pace. Although the world of alternative investing has consisted of a disparate set of managers following disparate specific strategies, significant attempts at structuring the markets have occurred in the past few years. Important, well-established firms are creating relatively liquid investment products designed to track the performance of hedge fund indexes.

Research for this article received the support of the EDHEC/MISYS Multi-Style/Multi-Class Research Program. We would like to express our gratitude to Sébastien Bonnet and George Martin.

Related research

- People also read
- Recommended articles
- Cited by 8

On the Performance of Hedge Funds >

Bing Liang
Financial Analysts Journal
Published online: 2 Jan 2019

Hedge

Nic
Fin
Publ

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

 Accept All

Essential Only

Settings