

New Political Economy >
Volume 14, 2009 - Issue 4

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Seeking Alpha or Creating Beta? Charting the Rise of Hedge Fund-Based Financial Ecosystems

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Pages 431-450 | Published online: 10 Nov 2009

 Cite this article  <https://doi.org/10.1080/13563460903287231>

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Seeking Alpha or Creating Beta? Charting the Rise of Hedge Fund-Based Financial Ecosystems

CHRISTOPHER HOLMES

Despite their notoriety, hedge funds have attracted relatively little critical attention to date. In place of such attention, a number of common understandings have emerged that tend to emphasise a) their capacity for singular, isolated agency and b) their arbitrage activities. For proponents of the industry, this is precisely their virtue: each fund manager individually seeks his or her niche arbitrage opportunity on their quest for *alpha* returns – that is to say, returns that systematically outperform the risk/return profile of the market as a whole. This type of profit making is understood in opposition to returns based on the tendency of the whole market to rise in value over time, which are classed as *beta*-based. Aggregated across many fund managers, alpha-seeking behaviour is said to make the process of price discovery quicker, directing liquidity more effectively and enhancing the efficiency of the market as a whole. For detractors, hedge funds



Notes

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It should be noted that ecology is not the only source of useful metaphors for financial activity. See Erturk et al. (forthcoming [2010](#)) for an interesting analysis of hedge funds understood through the military analogy of war.

Although no detailed research exists on investable indices, see Schneeweis et al. [2005](#) for a very basic introduction.

Additional information

Notes on contributors

Christopher Holmes

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