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

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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 are instead cast as a dangerous, aberrant financial force marked out by the use of short selling techniques, which enable a small caste of opportunistic financiers to profit at the expense of the rest of the market: the quest for alpha returns is a zero-sum game, so, if hedge funds are winning, everyone else must be losing. While there are grains of truth in both narratives, it is clear that more thought out, structurally located accounts of their significance are required.

With this in mind, the following article deploys the metaphor of financial ecosystem in order to make sense of hedge funds and their relationship with the wider economy. This conceptual move leaves behind misleading dualisms between alpha and beta returns, between investors and 'the market', and instead places more generic processes of growth, competition and innovation at the centre of

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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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