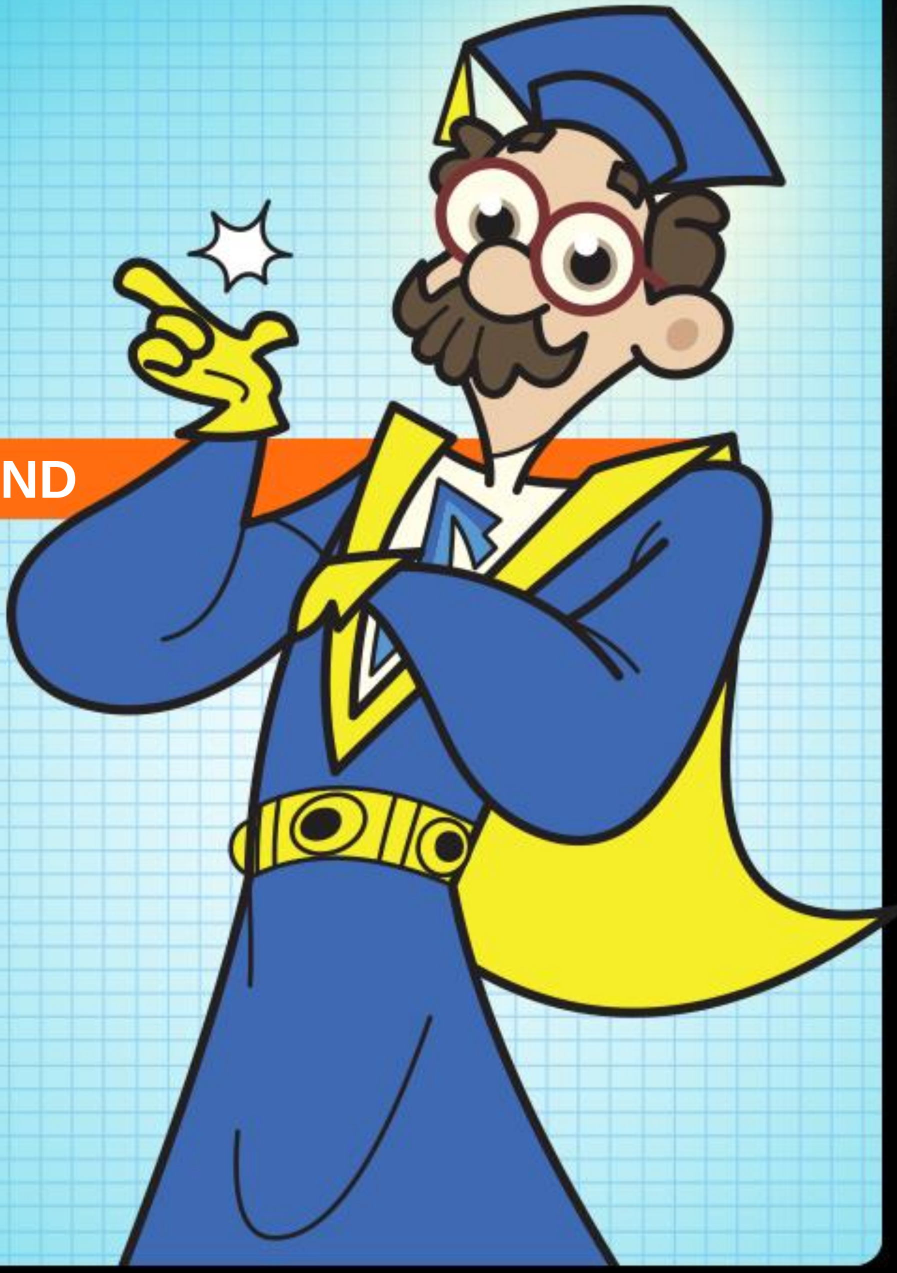
HEDGE FUND VS MUTUAL FUND



Hedge Fund Vs Mutual Fund

– By Prof. *Simply* Simple ™

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HEDGE FUND VS MUTUAL FUND

Hedge funds are like mutual funds in some ways. Investment professionals in a hedge fund pool in money from investors to be managed - exactly like the mutual funds do. And, subject to some minor restrictions, investors in hedge funds can withdraw their money as they can in a mutual fund. Nothing else is similar. Let me explain the differences

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HEDGE FUND VS MUTUAL FUND

Difference 1

Hedge Funds

Focus on absolute returns

Mutual Funds

Focus on relative returns.

Returns should be higher than benchmark

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HEDGE FUND VS MUTUAL FUND

Difference 2

Hedge Funds

Can invest in any asset class - stocks, bonds, commodities, real estate, private partnerships, - or exotic debt products like packaged sub-prime mortgages.

Mutual Funds

Work within a risk controlled and compliance framework set up by the regulator. Hence very risky asset classes are prohibited for investment

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HEDGE FUND VS MUTUAL FUND

Difference 3

Hedge Funds	Mutual Funds
They can borrow to bet bigger and enhance returns.	They can borrow – but within SEBI guidelines

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HEDGE FUND VS MUTUAL FUND

Difference 4

Hedge Funds

They can run highly concentrated portfolios.

Mutual Funds

The objective is to protect investors' investment and hence diversification is the key principle.

HEDGE FUND VS MUTUAL FUND

Difference 5

Hedge Funds

Meant for those who are already rich. Hedge funds are open only to 'accredited investors' defined as those with net worth of more than $1.5 million, or income in excess of $200,000 in each of the past two years. The good ones demand $1 million or more of investment.

Mutual Funds

Meant for people at large providing them with an option of building wealth through equity and debt investments. Mutual Funds allow even small investors to participate.

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HEDGE FUND VS MUTUAL FUND

Difference 6

Hedge Funds

Work on 2/20 basis which means they charge 2% a year by way of management fees and 20% of the net profit. They do not share in losses.

Mutual Funds

They charge 1.25% on the first 100 crores of the AUM managed. Annual expenses can go upto 2.25% to 2.50%.

HEDGE FUND VS MUTUAL FUND

Difference 7

Hedge Funds

Hedge funds are virtually unregulated.

Mutual Funds

Mutual funds are heavily regulated because investor safety is the most important requirement

HEDGE FUND VS MUTUAL FUND

Difference 8

Hedge Funds

They cannot market

themselves publicly

Mutual Funds

They are sold as products

to enhance wealth

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HEDGE FUND VS MUTUAL FUND

Hope you now know

the difference

Thinking of Investment

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