Career Opportunities in Hedge Funds

Description of the Field
A hedge fund is a private investment fund that trades and invests in various assets such as securities, commodities, currency, and derivatives on behalf of its clients, typically wealthy individuals or institutions. It also combines a fund manager, which is usually the general partner, and the investors in the hedge fund, sometimes known as the limited partners.

The limited partners contribute the money and the general partner manages it according to the fund's strategy. A hedge fund's purpose is to maximize investor returns and eliminate risk, hence the word "hedge." If these objectives sound a lot like the objectives of mutual funds, they are, but that is basically where the similarities end. Many hedge fund employees have previous experience in the financial services industry, such as within the alternative investment arms of investment banks.

The name "hedge fund" originates from the aim of these vehicles, which was to make money regardless of whether the market climbed higher or declined. This was made possible because the managers could "hedge" themselves by going long or shorting stocks. "Shorting" or short selling is a way to make money when a stock drops. It is the sale of a security that is not owned by the seller, or that the seller has borrowed. It is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit.

(Source: http://www.investopedia.com/terms/s/shortselling.asp#ixzz4IH1n5oFt)

Career Paths

Trading Assistant
Junior Trader
Senior Trader
Investment Analyst
Portfolio Manager

Other roles include Strategist, Software Developer, and various administrative roles in the initial stages of your career. Roles can involve research, risk analysis, buying or selling, etc. Career paths can vary greatly based on experience, skill set, and achievements within the field.

Qualifications Necessary to Enter the Field

+ A master's degree in business administration, economics, finance, international business, or risk management
+ A solid background in business-related courses such as accounting, business finance, money and financial markets, statistics, micro- and macroeconomics
+ Ability to analyze a corporation's growth potential, profitability, industry niche, future projections, etc., and to read and understand annual reports, balance sheets, income statements and cash flows
+ Specialized skills related to law, medicine, math, economics, etc. could all be desirable in some fashion
+ Dedication to long hours, long work weeks, and an on-call work mentality
+ Hedge funds also highlight the following traits which may "attract" them to talent: emotional intelligence, social responsibility, tech savviness, raw intelligence, fast learners
+
**Possible Career Tracks**
A hedge fund career is considered one of the most desirable paths in the finance field. While the senior fund managers pull down a huge share of the compensation, a newly minted employee does not start at a hedge fund managing his or her own pool of money. Instead beginners might start in the hedge fund field as a trading assistant, analyst, or in another entry- or mid-level administrative role.

Hedge funds especially value those with specialized skills and advanced degrees: PhDs that know currencies and macroeconomics; MDs that know drugs and devices and can figure out which ones will succeed and which will fail; JDs that can analyze credit agreements or bet on the outcome of merger deals in the antitrust agencies; mathematicians that can build quantitative trading algorithms, etc.

In the initial couple of years as an analyst, you are required to undertake fundamental research projects and work with the Sector Head, which includes attending industry conferences, attending management meetings, conducting field research and building financial models. You are required to gain expertise over a sector, which involves developing proprietary tools for research, create sector surveys, conduct macro-economic research and read sell-side equity.  

**Challenges of the Field**
Reverberating effects of economic crises like the one in 2008 continue to affect the hedge fund industry. For instance, fund management and performance fees have decreased since then. This leads to more active negotiating fee levels by institutional investors which then also requires fund managers to do more for less money. Non-core activities may result in outsourcing or eliminating them altogether.

Industry consolidation can also be a challenge with hedge funds. Larger alternative asset managers are purchasing or absorbing smaller players at an accelerating rate. Institutional investors, who account for the majority of hedge fund inflows, prefer investing with larger players, making it very difficult for smaller managers to raise capital. Smaller managers struggle to afford the necessary control infrastructure required to pass the due diligence reviews of large asset allocators.

Economic legislation can be very influential to the field of hedge funds. Hedge fund managers are starting to feel the effects of recent bank regulations. Regulations put into place since the 2008 financial crisis have led to increased capitalization requirements, constraints on leverage and a focus on liquidity that have affected banks’ capacity and economics, resulting in an evolving shift in how prime brokers view hedge fund relationships.


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**ROLES + RESPONSIBILITIES OF A HEDGE FUND ANALYST**

+ Maintaining financial models for current and prospective companies
+ Performing valuation techniques
+ Data mining
+ Idea generation
+ Assist in the overall portfolio management process
+ Analysis of financial markets and institutional investors
+ Preparation of proposals, marketing materials, client presentations, and client reporting
+ Developing risk and asset class guidelines
+ Making on-site calls to investment managers
+ Writing due diligence reports
+ Hedge fund strategy
Sample Employers

- J.P. Morgan Asset Management: https://www.jpmorgan.com/global/about/asset-management
- AQR Capital Management: https://www.aqr.com/
- Och-Ziff Capital Management: http://www.ozcap.com/index
- Two Sigma Investments: https://www.twosigma.com/
- Millennium Management: https://www.mlp.com/home/
- Viking Global Investors: https://www.vikingglobal.com/
- BlackRock Advisors: https://www.blackrock.com/

Resources for Additional Information

- 10 Steps to a Career in Hedge Funds
  http://www.investopedia.com/articles/financialcareers/08/hedge-fund-career.asp
- Definition of Hedge Funds and Basic Information
  http://www.investopedia.com/terms/h/hedgefund.asp
- Managed Funds Association
  https://www.managedfunds.org/hedge-fund-investors/
- Hedge fund websites
  http://www.insidermonkey.com/blog/hedge-fund-websites-265817/

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