



How the GCC Protect Themselves When Oil Price Depression

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Abstract

The main purpose of this research is to know how the GCC protect themselves when the oil prices depressive. This research provides a comprehensive explanation of hedge funds. First reviews the hedge fund history and evolution. Second, Definition the hedge fund, futures contract, hedge accounting and the volatility. Third, the characteristics of hedge fund returns. Finally, hedge fund methods are classified into three categories: rule based, factor based, and distribution approaches.

Keywords: hedge fund; risk; future contract; investors; and investment.

1. Introduction

Although the non-financial companies are looking for a little bit what the futures markets as a way to hedge risk[1:52 – 53]. It is quickly become clear that the treasury departments aren't necessarily all of the risk assessment in the same way. When we talk about the risks, we mean that revenues and expenses that can be different from the functional currency adopted in the company, or in the currency of raw material prices will fluctuate during the period of time. To get rid of the risk, or reduce the company's exposure to hedge risk claims. A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. After the financial crises between 2000-2001 and 2007-2008 several regulatory bodies and developed a set of new laws determine how to classify institutional entities and rules that these institutions adhered. It doesn't belong to these banks only laws and trading companies, but also every company operates through a regulatory body.

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In USA identified the DOD FRANK act to reform WELL STREET and consumer protection how can regulate when trading companies of a certain size of business. In Europe, it tended attention to the third of the Basel convention and the convention on the financial instruments markets. and all these controls are longer and more complex and it prepared not only to protect the integrity of the markets, but also for the protection of trade on the markets down to all the people who don't realize that they are unaffected. That is, every one of us. The impact of these markets has extended to a lot of things such as oil, gold, and currency prices determined by the banks prices. We often hear from some people who don't hedging that the hedge is expensive and risky. Indeed to the contrary, it is a hedge is like an insurance policy in light of the instability that dominates the world. And it is a crude example of this, after that the price of oil per barrel, more than \$100 it fell to its lowest of \$30 US. Kuwait produces 3 million barrels per a day and arithmetic approximations if we consider that Kuwait has lost an average of \$50 in the price of a barrel without the hedge, which cost it \$150 million a day. And if what we collected this amount over five years from hedge are going to have a total value of \$22 billion. It was possible to Kuwait as a hedge just as you would any company, and it was possible to hold the hedge high efficiency transparent manner in terms of the cost several years ago and thus protect themselves from depression oil prices in the current situation (2016 issue 30 Arabian business). of course, in the manufacturing industry, many companies complete to develop new products protected by patent. This is often a very expensive process involving large amounts of money invested to develop sophisticated proprietary technology. Rival companies release similar products and the prices of these products fall gradually. Eventually, the previously developed technology becomes common, allowing for the products to be produced at low cost. Hedge funds provide investment strategy as a product. Fund managers are money management professionals, and receive rewards by providing the strategy to investors. They make efforts to develop their own investment strategies. Their strategies aren't protected by patent, but the prevailing industry structure enables their strategies to be kept confidential. The fees of investing into hedge funds are still at high levels and haven't fallen down. For a typical case, investors need to pay 2% as management fee and 20% as incentive fee. This seems (peculiar), when compare with the manufacturing industry. The reason for this lies in the difficulty of evaluating hedge fund performances. All fund managers believe that the high fees charged are justifiable as they are capable of earning high returns through their strategy. Investors in return invest in the fund because they believe that the fund manager will provide returns that will justify the high cost. To evaluate a hedge fund's performance, at least a few years of performance track record is needed.

2. Hedge fund history and evolution

2.1 Hedge fund defined

There is no uniformly accepted definition of a hedge fund [2: 3 – 10]. Many hedge funds today have no true hedge at all, rather they increase risk through leverage, concentration, and by trading in illiquid assets. Economic grow by applying accumulated capital. Along with other resources, to produce increasing amounts of goods and services. Capital is accumulated from the saving of households when they don't consume all of their income. Savings are invested in financial instruments if they can offer an attractive return. So available capital is constrained by household savings, and the investments that households make will be those expected to have the best prospects (to offer the best prospective return). That is the role for the financial sector, of which hedge

funds are a major part

What is a hedge?'

A hedge is an investment to reduce the risk of adverse price movements in an asset Normally [3], a hedge consists of taking an offsetting position in a related security, such as a futures contract [3]. The futures contract is a legal agreement, generally made on the trading floor of a futures exchange, to buy or sell a particular commodity or financial instruments at a predetermined price at a specified time in the future. Futures contracts are standardized to facilitate trading on a futures exchange and, depending on the underlying asset being trade, detail the quality and quantity of the commodity. Hedging is analogous to taking out an insurance policy. If you own a house in a flood-prone area, you will want to protect that asset from the risk of flooding- to hedge it, in the other hand, by taking out flood insurance. There is a risk-rewards tradeoff inherent in hedging; while it reduces potential risk, it also chips away at potential gains. Hedging isn't free. In the case of the flood insurance policy, the monthly payments add up, and if the flood never comes, the policy holder receives no payout. Most people would choose to take that predictable, circumscribed loss rather than suddenly lose the roof over their head. A perfect hedge is one that eliminates all risk in a position or portfolio. In other words, the hedge is 100% inversely correlated to the weak asset. This is more an ideal than a reality on the ground, and even the hypothetical perfect hedge isn't without cost. Basis risk refers to the risk that an asset and a hedge will not move in opposite directions as expected; basis refers to the discrepancy.

2.2 The first hedge fund

It is generally reported that A.W. JONES set up the first hedge fund in 1949. [2](John M. Longo, PHD, CFA Rutgers business school & the MDE group, INC. under our definition of hedge funds, there are others that preceded Jones. I had the great pleasure of leading a group of forty Rutgers business school students on a trip to visit Warren Buffett at his Berkshire Hathaway Offices in 2006. Buffett mentioned that he believed Benjamin Graham operated the first hedge fund since Graham's partnership utilized long and short positions and charged in incentive fee. Graham's partnership, formed in 1926 with Jerome Newman, included a number of hedged and not hedged strategies, such as convertible arbitrage and distressed securities. Over time it evolved to an approach that was primarily net long with a value bias, while Jones's partnership was more dynamic in its use of leverage and short selling. There were likely to be several trading and commodity pools in operation before Graham-Newman, some of which are noted in the classic trading tome, Reminiscences of a stock operator. However, until detailed evidence of their operators comes to light, I would agree with Buffett's belief that Graham-Newman operated the first hedge fund

2.3 Evolution of the Hedge Fund Market

2.3.1 Billion Dollar Paychecks Attract the “Best and Brightest”

Hedge funds gained a fair amount of notoriety in the 1060,s, subsequent to an article on A. W. Jones by Loomis (1966). In my opinion, tow significant events propelled the hedge fund industry to where it is today as one of the hottest areas of finance, first, George Soros' Quantum fund reportedly earned more than \$1 billion in a single

day on September 16, 1992 by shorting the British pound in advance of the united kingdom's withdrawal from the European exchange rate mechanism. Amazingly, there are practically no requirements needed to start a hedge fund.

2.3.2 Hedge funds outperform during 2000 – 2002 bear market

The second key event that may have spurred the exponential growth of the hedge fund industry was the bear market in U.S equities of 2000 – 2002. Hedge fund returns were nominally positive, while U.S. equities experienced double – digit losses for three consecutive years. These results are shown in Table 1 below. Value stocks, once thought to provide strong downside protection in the event of a bear market.

Table 1: hedge fund and U.S. stock market performance, 2000 – 2002

Year	CS Tremont HF Index	S&P 500	Russell 1000 Growth	Russell 1000 Value
2000	4.85%	-9.10%	-22.42%	7.01%
2001	4.42%	-11.90%	-20.42%	-5.59%
2002	3.04%	-22.10%	-27.88%	-15.52%

Source: CS Tremont, Morningstar Principia

Hedge funds were virtually the only asset class, with equity exposure, that appeared to keep investors' heads above water. Institutional investors with significant allocations to alternative investments, such as DAVID SWENSON of YALE, were viewed as brilliant and therefore had their investment philosophies followed by an increasing number of foundations, endowment, pension funds, and family offices.

2.3.3 Other notable hedge fund events

Other notable hedge fund related events include the spectacular blowups of long term capital management, expertly chronicled in Lowenstein (2001), and Amaranth advisors. The failure of Long Term capital leaves an enduring lesson to be learned for all investors. Namely, the smartest people on earth can lose virtually all of their investor's capital when untimely market movements are combined with excessive leverage and illiquid underlying financial assets. On February 9, 2007, fortress investments Group (FIG) became the first publicly traded hedge fund management company in the U.S. FIG started strong, closing its first day at \$31.50 per share, up 67.6% from its \$18.50 per share offering price. In late October 2008, FIG was trading at roughly \$4.90 per share in the aftermath of the subprime fallout and unraveling of the credit bubble. The global bear market of 2008 is shaping up to be the worst year ever for hedge funds, with most broad indexes down close to 20% at the end of October. Clearly, many funds will have to shut down since they will not be able to cover their operating expense due to a lack of incentive fees.

3. Types of hedge funds

There are dozens of hedge fund strategies and they often don't fall neatly into a single category. In several cases, there is overlap between two hedge fund categories. For example, many statistical arbitrage strategies are also market neutral. Below are some of the more common strategies utilized by hedge fund managers?

1. Activist funds typically purchase a sizeable (i.e. 5% or more) stake in a company and attempt to unlock shareholder value by motivation management or corporate strategy changes. In many respects they operate similar to private equity firms, with the obvious exception that they own a limited amount of shares in publicly traded companies.
2. capital structure Arbitrage is a more generalized version of the convertible bond arbitrage trade and is typically executed through the use of complex derivative instruments, such as a credit default swap. As with most arbitrage trades, either side of the position can be taken, but the typical transaction combination is to be long the bond (through a synthetic position, such as selling short a credit default swap and short the common stock. The strategy performs well in most circumstances, but has difficulty when there is a divergence between stock and bond prices.
3. convertible Arbitrage funds typically buy convertible bonds and sells short the common stock of the same company. The hedge fund earns the coupon from the bond and the proceeds from the short sales of the common stock, resulting in a "double carry."
4. distressed credit funds focus on companies that are at risk of default, are in default, or have recently emerged from default. Credit is a more general term for the investment in fixed income securities. For example, credit funds may purchase a pool of loans from a bank, such as Citi or Goldman Sachs, at deep discounts. Both strategies place a heavy emphasis on legal work, financial statement analysis and the identification of the "fulcrum" security or the one which has the maximum voting leverage in the event of a financial reorganization.
5. event driven funds engage in trades based on a specific event such as: merger, special dividend payment, earnings announcement, analyst opinion upgrade, or credit downgrade. Once the event is resolved, favorably or unfavorably, the fund moves on to the next trade.
6. managed futures funds trade in futures contracts, such as commodities, currencies, metals, or index futures. Some analyst call these funds "commodity trading advisors", but the "managed futures" term better signifies the board array of instruments these funds can employ.
7. merger arbitrage funds typically purchase a basket of stocks that is the target of a merger or acquisition. The offsetting trade usually involves a short position in the bidding firms. The main risk of the strategy is the loss incurred when a deal falls through, effectively forcing the hedge fund manager to absorb the loss of the takeover premium. Leverage is often utilized to increase risk and return.

8. fund of funds purchase positions in a number of individual hedge funds. They attempt to reduce the damage to the portfolio in the event that a specific fund, such as with long term capital management. One disadvantage is that their investors incur a second layer of fees, typically one percent of assets under management and ten percent of profits.

4. How hedge funds differ from mutual funds

Both types of funds represent pools of investors putting their capital in the hands of a manager. But mutual funds are far more transparent than hedge funds [4: 12 – 13] Mutual funds have accepted SEC regulation as the price of having legal access to millions of small investors. Mutual funds must specify their strategies in their prospectus, and report their holdings and their results regularly. Hedge funds, by contrast, are very lightly regulated. In the United States, restrictions imposed on investor qualifications serve to replace regulation: eligible investors must be “accredited,” with levels assets that put them in the upper few percent of American households. The implicit argument is that prosperous individuals can take care of themselves. Hedge funds are prohibited from advertising. Many hedge fund managers shun publicity, in part to avoid hint that they are engaged in backdoor advertising through the news. Hedge funds’ original investors were wealthy individuals and families, but by 1990s these were overtaken by large institutions such as charitable endowments and pension funds.

5. Characteristics of hedge fund returns

We should review the characteristics of hedge fund returns before the target and methodologies of hedge fund products are discussed[5: 59 – 60]. Originally, hedge fund managers seek absolute return; they try to earn profits under any market circumstances. These managers make use of their unique insights into financial markets to find investment opportunities and extract return. "Abilities and insights are the unique," some managers invest in stocks, bonds, or currencies, and others invest in complex structured products. Long/short equities, event driven, global macro, relative value arbitrage, and so on. The variety of investment tools and strategies, hedge funds exhibit a spectrum of risk-return profiles. Large investors, such as university endowments and pension funds, determine asset allocations to various asset classes. Recently, hedge funds have been included as one of the asset classes. Therefore, those investors also need to understand the return characteristics of hedge funds in broad terms. Although investment instruments and strategies that hedge funds employ are wide-ranging investment styles that capture absolute returns can be classified into two categories, the first is dynamically changing exposure to markets. Some managers predict market directions and take long or short positions accordingly. The managers realize profits when the markets move in line with their predictions. These managers are referred to as directional traders. The second is exploiting market inefficiencies, mispriced securities. There are mainly two approaches that exploit market inefficiencies. These are relative value and security selection. Relative value is finding two or more securities or portfolios that have same value but are priced differently in markets. Relative value traders create positions when there is mispricing and close positions when two market values converge. Security selection is finding undervalued or overvalued securities, taking long or short positions respectively and closing these positions when the manager judges the prices to have reached fair value [5]. There is much literature that has tried to define the characteristics of hedge fund

returns. Their challenge has been extracting unique properties of hedge fund returns from cross-sectional and time-series data. These works can be classified into two main approaches that help to explain hedge fund returns. The first approach is through analyzing distribution and time-series properties of hedge fund returns. The second approach is through identifying factors and understanding how these factors drive hedge fund returns. This approach is also commonly referred to as style analysis.

The most outstanding find from returns distribution analysis is the non-normality characteristics of hedge fund returns. This is documented by [6], in which the authors calculated SKEW and HURTOSIS, of hedge fund returns by strategy and tested for normality of returns. The result showed most strategies to exhibit negative SKEW and HURTOSIS, and hence, their hypotheses of normality were rejected.

6. Basic properties of hedge fund returns

Hedge funds exhibit unique and dynamic characteristics that bear further study. Fortunately the returns of many individual hedge funds are now available through a number of commercial databases such as ALTAVEST, CISDM, hedge funds.net, HFR, and LIPPER TASS. For the empirical analysis we use two main sources: a set of aggregate hedge fund-index returns from CS/Tremont, and the Lipper TASS database of hedge funds, which consist of monthly returns and accompanying information for 7,924 individual hedge funds (as of September 2007) from February 1977 to August 2007.

Table 2: Number of funds in the Lipper TASS hedge fund live, Graveyard, and Combined databases (February 1977 to August 2007) Number of Lipper TASS Funds

Category	definition	Live	Graveyard	combined
1	Convertible arbitrage	75	101	176
2	Dedicated short bias	17	20	37
3	Emerging markets	175	174	349
4	Equity market neutral	149	182	331
5	Event driven	257	247	504
6	Fixed income arbitrage	134	125	259
7	Global macro	111	178	289
8	Long/short equity hedge	771	947	1718
9	Managed future	173	356	529
10	Multi-strategy	135	135	230
11	Fund of funds	704	704	1195
		2701	2916	5617

Table 2 reports the number of funds in each category for the live, graveyard, and combined databases, it is apparent from these figures that the representation of investment styles isn't evenly distributed but is concentrated among four categories: long/short equity hedge (1718), fund and funds (1,195), manage future (526), and event driven (504).

Together, these four categories account for 70.3% of the funds in the combined database. Figure1 shows that the relative proportions of the live and Graveyard databases are roughly comparable, with the exception of two categories: fund of funds (26% in the live database and 18% in the Graveyard database) and managed futures (6% in the live database and 12% in the Graveyard database).

This results the current trend in the industry toward fund of funds, and the somewhat slower growth of managed futures funds.

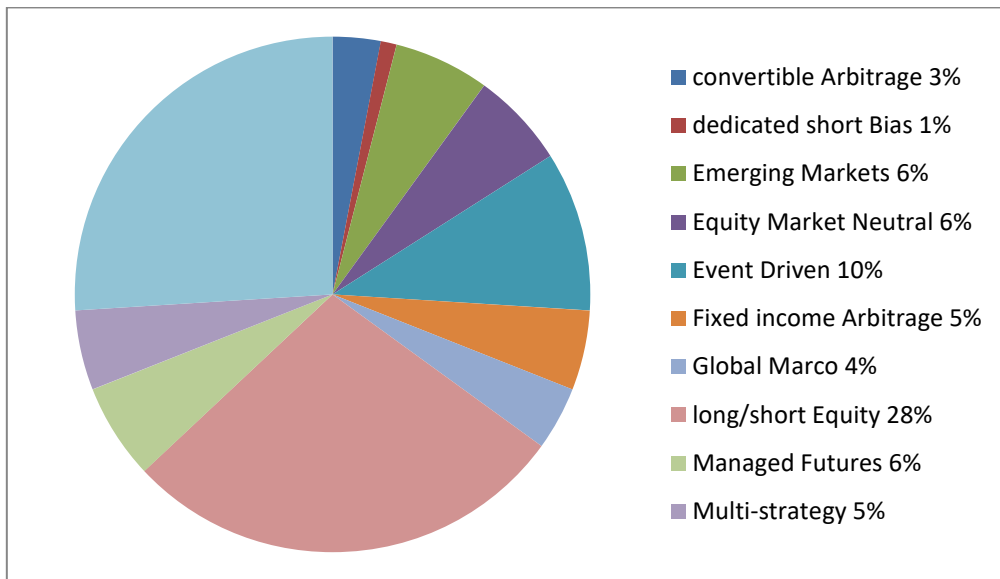
Table 2: Summary statistic for Monthly SC/Tremont Hedge Fund index Returns and Various Hedge fund Risk Factors *

	Sample size	Annual Mean (%)	Annual S.D. (%)	Correlation With S&P 500(%)
Hedge fund	163	10.87	7.52	48.9
Convertible Arbitrage	163	8.71	4.56	14.8
Dedicated short Bias	163	-0.60	16.75	-75.7
Emerging markets	163	10.59	15.66	47.6
Equity market neutral	163	9.61	2.83	36.7
Event driven	163	11.68	5.47	55.7
Fixed Income Arbitrage	163	6.20	3.65	4.8
Global Macro	163	13.39	10.52	23.6
Long/Short Equity	163	12.09	9.86	59.5

*Data goes from january 1994 to july 2007 for all hedge fund indexes and risk factors, except for the Multi-strategy index (April 1994 to july 2007) and banks risk factor (january 1994 to Desember 2006).

Table 2 shows that there is considerable heterogeneity in the historical risk and return characteristics of the various categories of hedge fund investment styles. For example, the annualized mean return ranges from -0.60 for dedicated shortselles to 13.39% for Globle Marco, and the annualized volatility ranges from 2.83% for Equity Market Neutral to 15.66% for Emerging Markets. correlations of the hedge fund indexes with S&P 500 are generally low, with the largest correlation at 59.5% for long/short Equity and the lowest correlation at -75.7%. for dedicated shortedsellers-as investors have discovered, hedge funds offer greater diversification benefit than many traditional asset classes.

(a) Live Funds



(b) Graveyard Funds

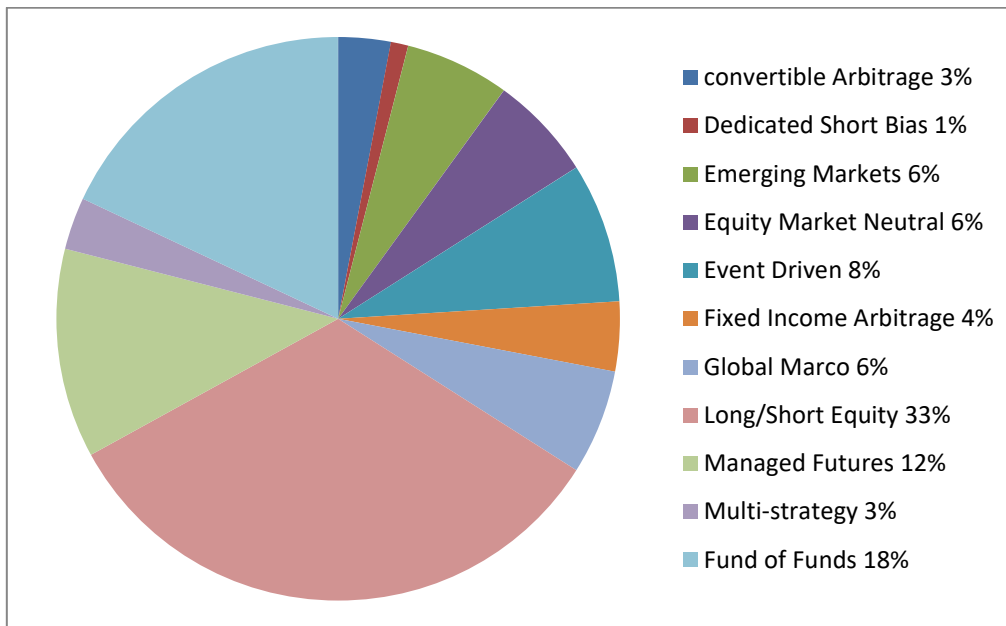


Figure 1: Breakdown of Lipper TASS live funds and Graveyard funds by category.

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This reflects the current trend in the industry toward fund of funds, and the somewhat slower growth of managed futures funds.

7. Risk preferences

Risk preferences play a major role in any investment process involving hedge funds, both, manager and investor perspectives. Hedge fund managers are typically compensated with both fixed and incentive fees. The risk preferences of investors are equally relevant for risk management for hedge funds since the behavior of investors greatly influences the behavior of managers. Any complete investment process involving alternative investments must take into account the risk preferences of both investors and managers in determining the appropriate risk exposures of a hedge fund. Many variations of risk that affect a typical hedge fund, it is more important to integrate the "three P's of total risk management" , prices, probabilities, and preferences.[7: 34 – 37] (see Io (1999) for further details). The importance of risk preferences underscores the human element in hedge funds, which is part of a broader set of issues often categorized as operational risks. These include organizational aspects such as the reliability of back-office operations, legal infrastructure, accounting and trade reconciliation, personnel issues, and the day-to-day management of the business. Many of these aspects aren't subject to quantitative analysis, but they are bona fide risks that in determining fund performance. Organizations such as the Alternative Investment Management Association (AIMA), <http://www.aima.org> provide sample due diligence questionnaires that provide excellent starting points for operational risk reviews.

8. hedge funds and the Efficient Market Hypothesis

One of the most influential ideas in modern economics and finance is the Efficient Markets Hypothesis,[8: 242 – 247] the idea that market prices incorporate all information rationally and instantaneously. The origin of the EMH can be traced back to Paul Samuelson (1965), whose contribution is neatly summarized by the title of his article "Proof that Properly Anticipated Prices Fluctuate Randomly". In an informational efficient market, price changes must be unforecastable if they are properly anticipated, i.e., if they fully incorporate the information and expectations of all market participants. Roberts (1967) and FAMA (1970) operationalized this hypothesis-summarized in FAMA's well-known epithet "prices fully reflect all available information"- by placing structure on various information sets available to market participants.

This concept of market efficiency has a wonderfully counterintuitive and seemingly contradictory flavor to it: the more efficient the market, the more random the sequence of price changes generated by such a market must be, and the most efficient market of all in one in which price changes are completely random and unpredictable. This, of course, isn't

an accident of nature but is the direct outcome of many active participants attempting to profit from their information. The EMH is particularly relevant for the hedge fund industry because the primary attraction of hedge funds is their higher expected returns and, in many cases, lower risk as measured by correlation to broad-based market indexes such as the S&P 500. If the EMH is true, then it shouldn't be possible to generate higher expected returns after adjusting for risk. For example, according to the Capital Asset Pricing Model the risk-adjusted expected return of any investment P is determined by the market beta of that investment:

$$E[R_p] = R_f + B(E[R_m] - R_f),$$

where R_f is the return on a riskless asset such as U.S. treasury bills and E is the expected return of the market portfolio, often approximated by the S&P 500. But consider the example of fund XYZ, a pseudonym for a live hedge fund drawn from the Altvest database with annual mean return of 12.54% and an annual return standard deviation of 5.50% from January 1985 to December 2002. Assuming a riskless rate of 2.5% and a market risk premium of 8% during this period, the CAPM implies that XYZ should have a beta of

$$B = \frac{E[R_{xyz}] - R_f}{E[R_m] - R_f} = \frac{12.54\% - 2.5\%}{8\%} = 1.26$$

However, a simple regression of XYZ return on the returns of the S&P 500 yields an estimated beta of -0.028 with an R^2 of 0.66%. in other words, fund XYZ is an asset with virtually no market risk exposure and yet has had comparable returns over an 18-year period with considerably lower volatility. How can this be consistent with the EMH?

Proponents of market efficient would respond by arguing that the CAPM isn't synonymous with the EMH and that the higher expected returns of hedge fund investment may be fair compensation for other systematic risk factors contained in their returns, e.g., liquidity, and tail risk (see, in particular, the examples in sections 1.1 and 1.2). (hedge funds: analytic perspective: analytic perspective. LO, ANDREW. 2010). However, even when such factors are taken into account, a number of funds still exhibit excess expected returns, implying either that the models are wrong or that markets are inefficient.

A more satisfying resolution to this apparent contradiction may be found in the Adaptive Market Hypothesis, an alternative to the EMH proposed by LO(2004) in which evolutionary principles are applied to financial markets along the lines of BERNSTEIN (1998), FARMER and LO(1999), and FARMER(2002). Prices reflect as much information as dictated by the combination of environmental conditions and the number and nature of "species" in the economy or, to use the appropriate biological term, the ecology. By species, we mean distinct groups of market participants each behaving in a common manner. For example, pension funds may be considered one species; retail investors, another; market makers, a third; and hedge fund managers; a fourth. If multiple species (or the members of a single highly populous species) are competing for rather scarce resources within a single market, that market is likely to be highly efficient, e.g., the market for 10-year U.S. Treasury notes, which reflects most relevant information very quickly indeed. If, on the other hand, a small number of species are competing for rather abundant resources in a given market, that market will be less efficient, e.g., the market for oil paintings from the Italian RENAISSANCE. Market efficient can't be evaluated in a vacuum but is highly context-dependent and dynamic, just as insect populations advance and decline as a function of the seasons, the number of predators and prey they face, and their abilities to adapt to an ever-changing environment.

Under the AMH, behavioral biases abound. The origins of such biases are heuristics that are adapted to nonfinancial contexts, and their impact is determined by the size of the population with such biases versus the size of competing populations with more effective heuristics. During the fall of 1998, the desire for liquidity and safety of a certain population of investors overwhelmed the population of hedge funds attempting to arbitrage such preferences, causing those arbitrage relations to break down. However, in the years prior to August 1998, fixed income relative-value traders profited handsomely from these activities, probably at the expense of

individuals with seemingly "irrational" preferences (in fact, such preferences were shaped by a certain set of evolutionary forces and might be quite rational in other contexts). Therefore, under the AMH, investment strategies undergo cycles of profitability and loss in response to changing business conditions, the number of competitors entering and exiting the industry, and the type and magnitude of profit opportunities available. As opportunities shift, so too do the affected populations. For example, after 1998, the number of fixed income relative-value hedge funds declined dramatically because of outright failures, investor redemptions, and fewer startups in this sector but many have reappeared in recent years as preference for this type of investment strategy has improved.

"population dynamics" can be found by considering the birth and death of funds in various style categories in the Lipper TASS database. Table 3 reports the number of entries and exits of funds in the unfiltered Lipper TASS database within each of the three style categories Global Marco, Long/Short Equity, and Fixed Income Arbitrage. The reports the annual compound return of the CS/Tremont style index corresponding to each of the three categories. By comparing the index returns with yearly attrition rates, it is apparent that performance has implications for future entries and exits, and vice versa.

Table 3: Annual Entries and Exits within three style categories in the Lipper TASS Hedge Fund Database (1994 to 2000)

year	Exiting funds	New entries	New exits	Intra year Entry/Exit	Total funds	Attrition Rate (%)	Index Return (%)
1994	56	12	3	0	65	5.4	-5.7
1995	65	21	6	0	80	9.2	30.7
1996	80	14	16	4	78	20.0	25.6
1997	78	20	7	1	91	9.0	37.1
1998	91	20	8	2	103	8.8	-3.6
1999	103	15	15	1	103	14.6	5.8
2000	103	18	32	0	89	31.1	11.7

In 1995 to 1997 were exceptionally good years for Global Marco, with index returns of 30.7%, 25.6%, and 37.1%, respectively. Therefore, it isn't surprising that the number of Global Marco funds increased from 65 at the end of 1994 to 103 at the end of 1998 with an attrition rate of 8.8% in 1998 that was considerably lower than the 20.0% attrition rate in 1996. However, from 1998 to 2000, the Global Marco index yielded considerable lower return of -3.6%, 5.8%, and 11.7%, respectively, and during this period the attrition rate for Global Marco funds increased from 8.8% in 1998 to 31.1% in 2000. As returns improved from 2000 to 2002, new funds entered, fewer funds exited, and attrition rates declined once again.

This relation between attrition rate and performance is no accident but is a manifestation of the simple business

dynamics of the hedge fund industry. Superior performance leads to greater demand for a particular style category. The increased number of funds in the category, or increased capital among existing funds in the category, implies that for a given set of profit opportunities in that sector, returns will eventually decline. Such a decline will inevitably lead to a withdrawal of capital, which in turn implies that the weakest funds—those with the poorest performance, the lowest profit margins, and the least viable business entities—will be eliminated from the population.

9. The climate for hedge funds in the GCC

The trouble in global financial market since last year has set an interesting backdrop for examination using hedge funds, private client investors from the GCC states have become familiar with their portfolios. But the financial climate hasn't often presented as many opportunities and challenges. To anticipate the likely path that hedge funds will follow in the region in the coming months and years it is useful, first, to appreciate the history of the local industry. For many years GCC financial markets have been steadily liberalizing, with the gradual emergence of local equity exchange and financial services institutions.

The process has received additional impetus over the past few years, as soaring fuel prices have helped to drive inward investment in the region and local regulators have introduced initiatives to help them compete with international financial centers such as London, New York, Frankfurt, and Tokyo.

The DIFC offers significant incentives to new participants to enter the market, including the trading and regulator infrastructure and a reputation for investors protection. These new initiatives and the obvious dynamic of local markets have attracted a steady flow of new hedge funds firms to the region, though all currently still invest outside of the GCC. There is, however, much demand for hedge funds that invest in local markets, so this is likely to change very soon.

In the world stock market drop of March 2000 and September 2002, hedge funds proved their value as a diversification tool. Again, last year, we saw hedge funds outperforming stocks markedly as many investors discovered that stocks aren't risk-free assets. As a result, institutional demand for hedge funds has soared in the past few years. HENNESSEE Group estimates that individuals and family offices account for 32% of Total industry capital, fund of hedge funds 32%, corporation 12%, pensions 11%, and endowments and foundations 13%. These developments were largely reflected in the middle East, where sophistication high net worth investors had been early adopters of hedge fund strategies, but institutional clients were slower to allocate.

In the region, many investments estimate that institutions account for approximately 35% of all assets allocated to hedge funds today, and maybe half of new money flowing into the asset class from the region, compared the less than 5% at the end of the 1990's.

Hedge funds currently offer GCC investors an alternative to local markets, allowing them to lock in profits made in rising markets to protect against losses during corrections. They can also be used to offset special market risks, for example, by trading strategies with a low or negative correlation to fuel prices.

Investors will increasingly demand investment products that match their liabilities and help balance their market exposure. That in turn forcing portfolio managers, particularly fund of hedge funds, to develop products appropriate to the region. The growing institutionalization of the region's hedge fund industry is also driving a trend toward more details reporting, greater liquidity and higher levels of client service. At last, the steady evolution of the industry is creating a wide dispersion among hedge fund investors demanding a range of product choices, from secure highly-diversified portfolios with a capital guarantee to more spicy concentrated portfolios that target higher returns. To keep pace with this changing environment and to continue to offer diversification and performance will require the depth of research, level of client service and product structuring abilities that only the very big participants can provide.

10. Top hedge funds holding GCC

1 – BBVA compass Bancshares INC.

Table 4

Date	Entity	Amount	Position size (\$ in 1000's)
03/31/2016	WISDOMTREE CONT COMM INDEX ETF (GCC)	68,699	\$ 1.285
06/30/2016	WISDOMTREE CONT COMM INDEX ETF (GCC)	69,424	\$ 1.420
09/30/2016	WISDOMTREE CONT COMM INDEX ETF (GCC)	73,628	\$ 1.434

BBVA compass Bancshares, INC. operates as the bank holding company for compass bank that provides banking services under the BBVA compass brand name. the company operates through consumer and commercial banking, corporate and investment banking, and Treasury segments. It accepts demand and time deposits, personal and commercial checking accounts, as well as interest and noninterest- bearing demand deposits, savings and money market deposits, certificates of deposit, and other time deposits. It also offers home mortgages, credit and debit cards, insurance products, mutual funds, and brokerage services to individuals; private banking services to high net worth individuals; and wealth management.

2 – STIFLE Financial CORP

Table 5

Date	Entity	Amount	Position size (\$ in 1000's)
06/30/2016	WISDOMTREE CONTINUOUS COMMOD	71,784	\$ 1.469

STIFEL FINANCIAL CORP. established in 1890, stifle, NICOLAUS & COMPANY, incorporated is one of the nation's premier full-service financial services firms, providing brokerage, trading, investment banking, investment advisory, and related services to individual investors, professional money managers, businesses, and municipalities through more than 390 locations in 45 states and the district of Columbia. Stifle ranks as the 6th largest brokerage firm in the country as measured by number of financial advisors, with approximately 2,100, and features a highly regarded equity research department that has earned numerous accolades from such publications as The Wall Street Journal, Forbes, and the financial times.

3 – PROFICIO CAPITAL PARTNERS LLC

Table 6

Date	Entity	Amount	Position size (\$ in 1000's)
09/30/2016	WISDOMTREE CONTINUOUS COMMODITY INDEX FUND (GCC)	76.550	\$ 1.490

PROFICIO capital partners LLC operates as an investment management firm. Company provides tax efficient investing and wealth preservation for its family members. PROFICIO capital partners serves customers in the united states.

4 – TIAA CREF TRUST CO. FSB MO

Table 7

Date	Entity	Amount	Position Size (\$ in 1000's)
03/31/2016	WISDOMTREE CONTINUOUS COMMOD	134,805	\$ 2.521
06/30/2016	WISDOMTREE CONTINUOUS COMMOD	125,562	\$ 2.569
09/30/2016	WISDOMTREE CONTINUOUS COMMOD	100,483	\$ 1.957

ST. LOUIS/NEW YORK, MAY 24,2016- TIAA-CREF TRUST COMPANY, FSB, A provider of banking, lending and fiduciary products, today announced the appointment of three new, highly qualified members to its

board of directions.

The new appointments, effective today, include:

1 – KATHIE ANDRADE, CEO OF RETAIL FINANCIAL SERVICES at TIAA, as board chair

2 – ANDREW ARMISHAW, CEO at ARMISHAW consulting LLC

3 – ROHAN WILLIAMSON, PROFESSOR OF FINANCIAL AND BOLTON SULLIVAN/THOMAS A. Dean chair in international business at the MCDONOUGH School of Business at Georgetown university

"we are excited to add these talented individuals to our board. They bring diverse experience and deep expertise in financial services that will be invaluable as we continue to grow the range of banking services we offer to customers," said RICK CALERO, president and CEO, TIAA-CREF Trust Company, FSB.

5 – ROYAL BANK OF CANADA

Table 8

Date	Entity	Amount	Position Size (\$ in 1000's)
03/31/2016	WISDOMTREE COMMOD CONTINUOUS	137,655	\$ 2.574
06/30/2016	WISDOMTREE COMMOD CONTINUOUS	138,124	\$ 2.826

Royal Bank of Canada the largest combined branch and ATM net work in Canada, they said, we are firmly committed to safeguarding your confidentially and protecting your personal, financial and business information. The principals that follow apply to all of our dealings with you.

6 – WELLS FARGO AND COMPANY MN

Table 9

Date	Entity	Amount	Position Size (\$ in 1000's)
03/31/2016	WISDOMTREE COMMOD CONTINUOUS	168,505	\$ 3.151
06/30/2016	WISDOMTREE COMMOD CONTINUOUS	249,463	\$ 5.104
09/30/2016	WISDOMTREE COMMOD CONTINUOUS	160,307	\$ 3.122

WELLS FARGO "our values should guide every conversation, decision, and interaction. Our values should anchor every product and service we provide and every channel we operate."

7- Alexandria Capital LLC

Table 10

Date	Entity	Amount	Position Size
			(\$ in 1000's)
03/31/2016	WISDOMTREE CONTINUOUS COMMOD	259,227	\$ 4.848
06/30/2016	WISDOMTREE CONTINUOUS COMMOD	249,040	\$ 5.095
09/30/2016	WISDOMTREE CONTINUOUS COMMOD	266,233	\$ 5.184

Alexandria Capital is an SEC-registered investment advisor with offices in NY,DC,VA and CA. by virtue of being a registered investment advisor, we are legally mandated to be your fiduciary. This means your interest is of the highest priority and at the core of everything we do.

The firm was founded in 1987 with the simple goal of helping successful individuals, families, and businesses sort through the complexities of managing their hard-earned assets so they can achieve their life goals. We bring ability, detailed organization, purpose, and discipline to your financial life to best PROTECT and GROW your wealth.

8- UBS GROUP AG

Table 11

Date	Entity	Amount	Position Size
			(\$ in 1000's)
03/31/2016	WISDOMTREE CONTINUOUS COMMOD	301,456	\$ 5.637
06/30/2016	WISDOMTREE CONTINUOUS COMMOD	251,676	\$ 5.149
09/30/2016	WISDOMTREE CONTINUOUS COMMOD	273,487	\$ 5.324

UBS Group AG is a holding company. The company provides a range of financial services, including advisory services, underwriting, financing, market-marking, asset management and brokerage on a global level, and retail banking in Switzerland. The company comprises corporate center and five business divisions: wealth management, wealth management American, personal & corporate banking, asset management and the investment bank.

9- SUMMIT EQUITIES INC

Table 12

Date	Entity	Amount	Position Size (\$ in 1000's)
03/31/2016	GREENHAVEN CONT COMDTY INDEX UNIT BEN INT (GCC)	323,324	\$ 6.046
06/30/2016	GREENHAVEN CONT COMDTY INDEX UNIT BEN INT (GCC)	326,689	\$ 6.684
09/30/2016	GREENHAVEN CONT COMDTY INDEX UNIT BEN INT (GCC)	329,249	\$ 6.410

Summit Equities, INC. is an employee owned investment manager. The firm also provides brokerage and financial planning services for its clients. It primarily provides its services to high net worth individuals. The firm also caters to individuals, pension and profit sharing plans, charitable organizations, and corporations. It manages separate client-focused portfolios for its clients. The firm invests in the public equity and fixed income markets. It also invests in mutual funds, exchange traded funds, hedge funds, real estate investment trusts, and insurance products including equity index, variable, and fixed annuities.

10- MORGAN STANLEY

Table 13

Date	Entity	Amount	Position Size (\$ in 1000's)
03/31/2016	WISDOMTREE CONTINUOUS COMMOD	192,594	\$ 3.601
06/30/2016	WISDOMTREE CONTINUOUS COMMOD	326,384	\$ 6.679
09/30/2016	WISDOMTREE CONTINUOUS COMMOD	329,252	\$ 6.411

Morgan Stanley mobilizes capital to help government, corporations, institutions and individuals around the

world achieve their financial goals. For over 75 years, the firm's reputation for using innovative thinking to solve complex problems has been earned and rarely matched. A consistent industry leader throughout decades of dramatic change in modern finance, Morgan Stanley will continue to break new ground in advising, serving and providing new opportunities for its clients.

Cases

1 – Kuwait investment authority

The department is responsible for investing in hedge funds globally and directly. The objectives of the department are to identify the most efficient sources of ALHPA with capital preservation and low correlation to traditional asset class indices such as the S&P 500 and the MSCI world. Additionally the department is responsible for achieving returns that outperform the hedge fund indices in the long run with low volatility and high liquidity.

2 – an India

The India economy has been through a fundamental shift over the past 30 years, moving from an agriculturally-based economy to one in which services account for more than 50% of the GDP . George concluded " the Indian economy is normally negatively correlated to oil prices. hence the MAYUR hedge fund is considered an excellent investment product providing investors a hedge against any downward trend in oil prices while capitalizing on the very strong internal and external growth narrative set to drive the Indian economy for the foreseeable future."

Before the 2007-2009 crisis, standard risk measurement methods substantially underestimated the threat to the financial system. One reason was that these methods didn't account for how closely commercial banks, investment banks, hedge funds, and insurance companies were linked. As financial conditions worsened in one type of institution, the effects spread to others. A new method that more accurately accounts for these spillover effects suggests that hedge funds may have been central in generating systemic risk during the crisis.

During the 2007-2009 financial crisis, commercial banks, hedge funds, and investment banks suffered huge losses from investments that were exposed to housing markets. in fact, in 2008 the international monetary fund estimated that these types of institutions, along with insurance companies, had lost a combined \$1.1 trillion.

One of the important lessons from the crisis is that systemic risk due to linked between different types of institutions are significantly underestimated in most widely used risk measures, such as value at risk. Standard measures need to be adjusted to adequately reflect spillover effects among different parts of the financial system.

However, measuring spillovers effects in practice is difficult for some reasons, first, spreads among financial institutions maybe quite small in times of financial stability, but large when the system in under stress. Second, it is difficult to distinguish

whether a shock affects all financial institutions at the same time or affects only one institution before it is transmitted to other institutions. Third, spread are typically measured as correlations among the returns of different assets. As well, correlations don't identify the direction risk travels between assets.

This economic letter reports on a method developed in ADAMS, FUSS, AND GROPP (2013) that addresses these concerns.

Surprising finding from this study is that hedge funds maybe the most important transmitters of shocks during crisis, more important than commercial banks, or investment banks.

Then, the results confirm our conjecture that spillovers effects appear small during normal times, but in financial crisis the spillovers effects widely and significantly among certain types of financial institutions. See figures 2,3.

Hedge funds, negative affect all three other types of financial institutions. During crisis, the spread become very large, making hedge funds more important transmitters of shocks than commercial banks or investment banks.

Figure 2 Spillover among financial institutions: normal times

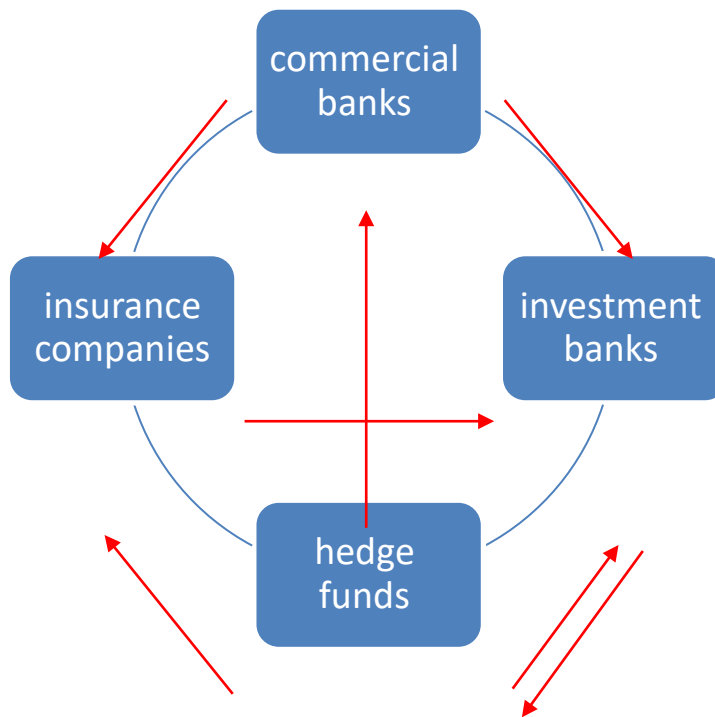


Figure 1: shows that during calm times the risks emanating from hedge funds are as Small as those from other financial institution

Figure 3 Spillover among financial institutions: crisis times

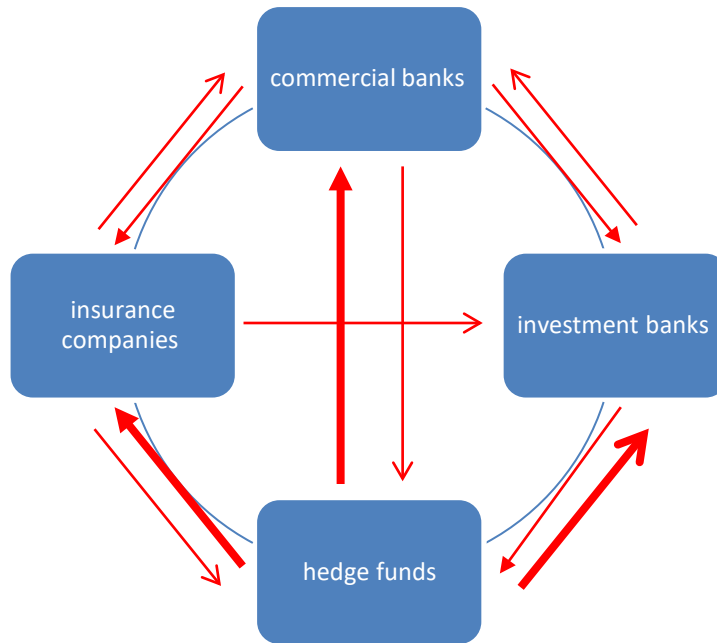


Figure 3: shows that during crisis times, spillover effects increase overall. In particular, hedge funds have economically large spillovers to the other three types of institutions.

The questions are why are the spillovers from hedge funds during financial crisis so much bigger, and why do they seem to increase more than those from other financial institutions? Hedge funds nontransparent and highly leveraged. If highly leveraged hedge funds are forced to liquidate assets at fire-sale prices, these asset classes may sustain heavy losses. This can lead to further defaults or threaten systemically important institutions not only directly as counterparties or creditors, but as well indirectly through asset price adjustments (BERNANKE 2006).

10. Results

- 1 – hedge funds are supposed to produce better returns while protecting your investments from the downside.
- 2 – hedge funds can draw return well above the market average even in a weak economy
- 3 – most investors are aware of hedge funds, but many don't know the risk of this unique investment type.

11. Discussion

A hedge funds is used in order to lower the risk of overall losses by assuming an offsetting position in relation to a particular security or derivative. So, hedge funds are considered of importance to many countries, companies, investors, and business to maintain the headers of their money from lower prices, natural disaster, or such as crisis financial or political. For these reasons and as well, and it is a vivid example of crude oil on it. After that it was trading price per barrel more than \$100 to the lowest dropped from USD30.

12. Conclusion

When analyzing hedge funds, the important thing to remember is to look beyond the numbers and statistics. An investors can be attract into an inappropriate investment if the qualitative factors mentioned above aren't analyzed within the context of the overall strategy. While there are some risks that should be unconditional, such as management integrity, there are others that can vary by hedge fund strategy. Only after a comprehensive and detailed analysis of all risks can one truly understand the investment. Linkages between different types of financial institutions complicate how overall risk in the financial system is measured. Adverse shocks can affect institutions directly or they can spillover from other institutions. There are persistent incentive to innovate in finance, in products, in business forms, and in regulatory avoidance. Hedge funds experienced a top in the 1990's and early 2000's, as new investing styles made superior profits and new technologies allowed more running.

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