Course Overview: This course will provide students with a solid and working understanding of hedge funds. The course will not only cover an overview of the hedge fund industry, but also provide students with a strong understanding of more than a dozen hedge fund strategies, including equity long / short, global macro, statistical arbitrage, merger arbitrage, convertible arbitrage, and fixed income arbitrage. The course will make extensive use of Excel spreadsheets to model specific hedge funds strategies and will also include live instruction on using cutting-edge Internet resources. In my view, often the best way to learn is by doing, so students will also manage a simulated $1 million hedge fund portfolio and design and present a hedge fund investment strategy group project.

Instructor Biographical Sketch, John Longo, PhD, CFA: Dr. Longo is a Clinical Associate Professor of Finance & Economics at Rutgers Business School and Chief Investment Officer and Chairman of the Investment Committee for The MDE Group (www.mdegroup.com), a registered investment advisor with $1.4 billion under management. The MDE Group has been ranked as the 4th best independent investment advisor in the USA by Barron’s in 2007 and 2008. He is a member of the Advisory Board of Bloomberg’s educational subsidiary, The Bloomberg Institute.

Dr. Longo has appeared on CNBC, Bloomberg TV, Bloomberg Radio, Fox Business, BBC World, The (Ron) Insana Quotient and several other programs. He has been quoted in The Wall Street Journal, Thomson Reuters, Dow Jones MarketWatch, The Chicago Tribune, The Star Ledger, Hedge Fund Alert, FundFire, and dozens of other periodicals. He is author / editor of Hedge Fund Alpha: A Framework for Generating and Understanding Investment Performance. He is a member of the Editorial Boards of The Journal of Performance Measurement and The Journal of Financial Planning & Forecasting. He has served as consultant to many financial service firms on a global basis and twice led Rutgers students to a personal visit with Warren Buffett. Previously, he was a Vice President at Merrill Lynch & Co., Inc.

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The text does not cover everything so it will be supplemented with additional material in my lectures or on the Blackboard Account. You are responsible for this material, so please get the
notes from a fellow student in the event that you miss a class.

**Blackboard Account:** (*IMPORTANT*) Homework solutions, sample projects, lecture material, and other information will be placed on the Blackboard Account for the course.

**Homework:** I will assign some homework problems that will help prepare you for the exams, but I will not collect / grade them. The incentive to do the homework is that there will be some similar problems on the exam. The solutions will be placed on the Blackboard Account. If you do not understand the solutions then please see me during the office hours or contact me via email. Time permitting, we will review selected homework problems during class.

**Grading:** Midterm (35%); Group Project (20%); Cumulative Final (45%)

*Exams will be a combination of multiple choice and quantitative or qualitative problems. The material on the exams will be similar to things discussed in class, the text, or in the homework problems.*

**Class Participation:** Strongly encouraged and will help in borderline cases. I believe maximum benefit will be obtained from the instructor and students discussing their experiences, when relevant, in the context of the course material.

**Hedge Fund Portfolio Simulation:**

Students will build and manage a simulated hedge fund portfolio throughout the course, starting on September 12th. We will use Investopedia.com to run the simulation. To encourage you to put effort into the simulation, we will do the following. The student with the maximum portfolio value on **NOVEMBER 29th** will get the equivalent of a 95 on the Final Exam (thereby likely exempting the student from the Final Exam with an A Grade). Any student who underperforms the S&P 500 by more than 10% (e.g. S&P is up 5% and you are down more than 5%) will have 5 points subtracted from their Final Exam Score (e.g. 75 score on Final Exam is adjusted downward to 70). Conversely, any student who outperforms the S&P 500 by 10% will get 5 points added to their Final Exam score. **IMPORTANT: You must use your real name, or else you are not eligible for one of the “prizes.”**

To ensure proper diversification, you cannot invest more than $100,000 in any individual stock, bond, option, mutual fund, or ETF. In addition, you cannot trade in any stock with a price < $5 per share. Most hedge fund strategies utilize a significant hedge, perhaps with the exception of Global Macro. Therefore, your portfolio must include at least $250,000 in short sale, put options, or inverse ETF positions by the end of September. I will provide you with further instructions that will be necessary in order to join the competition.

**Group Project:** (Group of 4 or 5 students) Create and test a hedge fund strategy, produce a “pitch book” and present your findings to the class. The project should include a discussion of historical and projected risk adjusted returns, as well as a risk management plan. We will discuss many hedge fund strategies and strategies of successful hedge fund investors in class. This material may
help spur ideas that will ultimately lead to your proposed hedge fund strategy. The bulk of the grade will be based on content, but your pitch book should also be well written and look professional. You should supplement your report with charts and tables to support your case.

The project is due NOVEMBER 21st and there will be a penalty for lateness. All students in the group will receive the same grade regardless of the amount of work done; therefore choose your partners wisely.

The ability to contribute to and impress others at meetings is an essential business skill. Therefore, the last two weeks of class will be devoted to a discussion of the projects. Each group will present their findings in a crisp 15-minute oral presentation. Everyone in the group must speak. The project is worth 20% of your grade (about 15% for the written report and 5% for the oral presentation)

OUTLINE FOR HEDGE FUNDS (TENTATIVE)

To get the maximum benefit from the course, it is strongly recommended that you read the appropriate chapters before class and print out the PowerPoint presentations for each chapter (these may be found on the Blackboard Account).

Sep 7: Chapter 1: Introduction to Hedge Funds; Behavioral Finance (Blackboard material)

Sep 14: Chapter 9: Equity Hedge Fund Strategies

Sep 21: Fundamentals of Technical Analysis (Blackboard Material); Chapter 13: Global Macro Hedge Fund Strategies

Sep 28: Chapter 11: Fixed-Income Hedge Fund Strategies; Review of Derivatives (Blackboard Material)

Oct 5: Chapter 14: Managed Futures Funds

Guest Speaker, Michael Schmelzer, VP in the Hedge Fund Group at Goldman Sachs

Oct 12: Chapter 15: Risk Arbitrage Hedge Fund Strategies

Oct 19: MIDTERM

Oct 26: Chapter 16: Distressed Investing and Event-Driven Hedge Fund Strategies; Review of Midterm
Guest Speaker, Daniel Strachman, Author of 7 Books and Investment Strategist

Nov 2:  Chapter 17: Convertible Bond Arbitrage and Relative-Value Hedge Fund Strategies

Nov 9:  Chapter 19: Funds of Hedge Funds

Guest Speaker, Paul Surdez, Head of Investor Relations, Covance

Nov 16:  Chapter 3: Measuring Hedge Fund Performance; Chapter 4: Hedge Fund Risk Management and Due Diligence

Nov 21:  (* Wednesday Classes Held on Monday; Projects Due *) **Student Presentations / Group Projects**

Nov 30: **Student Presentations / Group Projects; Course Review**

Dec 7: Final Exam