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HSBC Global Private Banking
Video Transcript

Hedge Funds. Finance Explained.

In periods of market volatility, ever wondered how to navigate the ups and downs?
Hedge funds focus on market inefficiencies and valuation inconsistencies, with the aim of generating returns, regardless of the market performance.

"A hedge funder invests in bonds, equities, commodities, or currencies and use sophisticated financial models, trading techniques, and risk management tools to identify and monetize those valuation inefficiencies. As such the key driver of the returns is not necessarily the performance of the underlying bonds or equities markets, but the effectiveness of the valuation models and trading techniques that are used by the hedge fund manager to monetize those inefficiencies."

Consider two differently valued companies within the same sector. If a hedge fund manager perceives this valuation gap as unjustified, they might buy shares from the undervalued company and short the overpriced one, seeking to profit when the gap closes. Even if the market declines, losses on the purchased stock could be offset by gains on the shorted one, reducing the fund's sensitivity to market movements.

Hedge fund investments are tailored for high net worth experienced and sophisticated investors as they carry risks. These are long term investments so your capital could be locked in for multiple years, with limited liquidity and no capital protection. A deep understanding of strategies, liquidity terms, regulations, and transparency is vital before deciding to ride the hedge fund wave.

HSBC has been investing in hedge funds on behalf of investors since 1989.

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