

**DO HEDGE FUNDS ADD VALUE FOR INVESTORS?**

Gabriel Epars, Sam Houston State University, Texas  
Balasundram Maniam, Sam Houston State University, Texas  
Hadley Leavell, Sam Houston State University, Texas

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**ABSTRACT**

This paper discusses whether hedge funds create value for investors. To determine whether those investment vehicles add value, three dimensions will be taken into account. First, this study will analyse whether hedge funds have had higher returns than mutual funds and major equity indices for the last two decades. Secondly, in order to take into account the risk, the risk-adjusted performance of hedge funds will be discussed. This study will underline the fact that hedge fund returns datasets are biased and that traditional methods to adjust for the risk fail to properly capture the risk of hedge funds. Therefore, modern techniques have to be used in order to properly assess the risk-adjusted performance. Finally, the potential diversification that hedge funds can provide as part of a portfolio will be discussed.

Keywords: *funds, investors, returns*