



What's a Hedge Fund?

Dear Dr. Per Cap:

What exactly is a hedge fund? I'm new to investing and keep hearing that's where the big returns are.

Signed,

Young Investor

Dear Young Investor

The best way I can describe a hedge fund is to think of a mutual fund on steroids. Like a mutual fund, a hedge fund is a collection or basket of financial assets into which an investor can buy individual shares along with other investors.

However, unlike a mutual fund that is required to hold registered investment securities such as basic stocks and bonds, hedge funds enjoy fewer restrictions and access to a wider range of assets and investment products; many of which are unregistered with investment regulators like the SEC aka the Securities and Exchange Commission. Sorry college football fans – wrong SEC!

Because unregistered investments and other hedge fund assets can be more financially lucrative, hedge funds can potentially outperform mutual funds when their holdings increase in value.

However, the old rule still applies – higher return means higher risk.

Yep, hedge funds are much riskier than regular mutual funds. Their shares can be more volatile with big price swings, their holdings are less transparent making them harder to research and analyze, and their fee structures are more complex. Hedge funds are not something for a novice investor to dabble in.

In fact hedge funds are only available to who regulators refer to as *accredited investors* – investors with a certain level of net worth and experience. In most cases that means a person who can prove steady and reliable income of at least \$200,000 a year or has a net worth of over \$1 million. The idea being that a person with a large cash cushion can handle the risk.

Accredited investor is a topic that's recently been in the news in Indian Country. In August the SEC expanded its definition of accredited investor for institutional investors like banks, insurance companies,

brokers, and trusts. Under the new definition Indian Tribes and entities formed under tribal law that own investments valued at more than \$5 million can qualify as accredited investors.

Personally, I have mixed feelings about this. It's good news that tribes have access to more investment options; however, I know from personal experience that not all tribes are able to accurately gauge the added risk associated with unregistered investment products. Moreover, I worry about unscrupulous financial advisors who might try to steer tribes into investments that don't align with their chosen risk tolerances.

But whether you're an individual investing your hard earned personal dollars or you serve on a tribal council or investment committee investing on behalf of your community I offer the advice of my dear aunt from Ohkay Owingeh Pueblo in New Mexico.

"Tsi-kha'an Kumä"

Tewa language meaning "Wait to buy"

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