UNIVERSITÀ DEGLI STUDI DI MILANO BICOCCA

Di.SEA.DE
Dipartimento di
Scienze Economico-Aziendali
e Diritto per l'Economia

LUNCH SEMINAR SERIES

HURST EXPONENT IN THE ANALYSIS OF HEDGE FUNDS PERFORMANCE PERSISTENCE

Milan, May 29th,2019 h. 12.00
Building U7, 4th floor, Seminar Room n. 4066

IZABELA PRUCHNICKA-GRABIAS
Warsaw School of Economics

ABSTRACT

The author analyzes rates of return generated by hedge funds and funds of hedge funds from the point of view of their persistence. The aim of the paper is to check if there exists any persistence of rates of return and if so, if there are any differences in different periods of time. The research is conducted with the use of the Hurst exponent which is also applied in other scientific disciplines like science or nature. The paper proves that the existence of rates of return persistence decreases together with the extension of the time horizon. It suggests that long-term investing in hedge funds is linked to high risk levels. One reason is that their rates of return are not described by normal distribution features. The second is the low probability that their performance in one-year or longer periods of time can be repeated. On the other hand, hedge funds cannot be used as short-term investments because of lock-up periods caused by illiquidity of their assets. According to such conclusions, portfolio diversification for such alternative investments seems to be crucial.