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Secondary Market For Hedge Funds Still Mired By Illiquid Assets

The latest quarterly index from secondary hedge fund market provider Hedgebay Trading Corporation has shown that the hedge fund market still has some way to go before it returns to historical levels.

Secondary market data for the second quarter showed the average price for hedge fund assets rose for the first time in seven months during April, and continued in May.

Statistics for April to June showed that the average discount on hedge fund assets has halved since reaching a low of 20% in March.

Despite this upturn, all trades still occurred at a significant discount to NAV over the quarter, and Hedgebay has warned that claims that normal service has been resumed in the hedge fund market are premature.

“A large proportion of the rise in the average price of sales is due to the trading of funds whose underlying assets are generally liquid and performing well. It is notable that investors now have the confidence to pay a higher price for these assets,” said Elias Tueta, co-founder of Hedgebay. “On the whole, trading patterns indicate that investors do not believe the fundamentals of the market have changed. There are still a significant amount of illiquid assets on the secondary market that investors will not raise their bid levels for.”

The secondary market peaked in May as the average discount fell to 8%. The performance of hedge funds in May had led many to believe that the industry may be returning to the level it was at before the sub-prime crisis took hold.

However, the average discount rose again in June, suggesting that a bear market rally may be on the cards. This corresponded with performance for the month, which tailed off in June. Tueta believes that while there are positive signs to take from the rise in the prices that investors are willing to trade at, it is too early to make any firm prediction.

“The secondary market is the coalface of industry sentiment among hedge fund managers and investors,” said Tueta. “As things stand, there is currently too much discrepancy between the valuations of buyers and sellers to say that there has been a notable change in the market dynamic. The fact that the average discount increased again in June shows that hedge funds are not nearly out of the woods yet.”

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