

3 Ways Anyone Can Invest in Hedge Funds

Description

There might not be an asset class more varied and complex than hedge funds.

The so-called “typical” hedge fund is supposed to use a combination of long and short positions to level out returns over the long term. By buying cheap stocks and shorting more expensive companies, this not only creates an investment that is more steady than the market, but should also give investors a better return over a number of years.

As hedge funds have evolved and expanded over the years, the types of funds offered have grown exponentially. These days, investors can put their cash into hedge funds that invest in everything from precious metals to micro-cap stocks. The sector has become incredibly diverse, which makes it much harder for someone to identify a potential winning fund.

For average investors, hedge funds are an investment class out of reach. Many of us don't meet the strict net worth or income levels needed to invest in these funds, while others just don't want to bother with complex funds.

But in reality, there are some really easy ways for investors to invest in companies that are just like hedge funds, but with more history and guys in charge who are really smart.

Berkshire Hathaway

If you haven't already, I'd recommend reading *The Snowball*, the biography of billionaire investor Warren Buffett. For me, the most interesting part of the book happened in the 1960s, when Buffett was winding down Buffett Partnerships, which was essentially his hedge fund. He recommended partners put their money in **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B), which we all know was a pretty good move.

Buffett still runs Berkshire as a quasi hedge fund. The company has huge investments in publicly traded stocks, as well as owning even larger private businesses. Somehow, it all has worked well enough to create one of the 10 largest companies in the world, a testament not only to Buffett's ability to pick good investments, but also to the way the whole company is structured.

The heart of Berkshire is the insurance business, which generates float. Float is insurance premiums that may have to get paid out at some point, but potentially not for years. By using this cheap form of leverage, Buffett turned Berkshire from a success to one of the most valuable companies in the world.

Fairfax Financial

The man in charge of **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)), Prem Watsa, is essentially creating a Canadian version of Berkshire Hathaway, right down to making the heart of the company about insurance. It's working pretty well, since Fairfax has increased its book value by 20% annually since 1985.

Although Watsa does spend a lot of time on individual stocks, he might be best known for his macro calls. He successfully predicted the crash of 1987, he pointed out just how overvalued tech stocks were in 1999, and he made billions from the U.S. housing market crash. Watsa has currently hedged his entire portfolio, confident that China will be the cause of the next global meltdown. I wouldn't bet against a man with Watsa's record.

Dundee

Dundee Corp. ([TSX:DC.A](#)) is an interesting collection of assets trading at a big discount to their market value.

For the most part, the company is invested in the resource sector, both in precious metals and in oil. But it also has exposure to real estate, asset management, and agriculture. Ned Goodman built the company into the powerhouse it is today, recently handing over the reins to his son, David.

What makes Dundee interesting is its cheap valuation. The company has a stated book value of \$1.64 billion, while only having a market cap of \$674 million. Shares currently trade at \$12.83, but the sum of all the company's investments are worth \$29.20 per share. Holding companies tend to trade at a discount, but not this big. Look for the gap to narrow as resource stocks recover.

Like with the other two companies, Dundee does not pay a dividend.

Although they're technically holding companies and not hedge funds, for retail investors they're almost the same thing. You're also getting three managers with, collectively, more than a century of investing experience. Think of them like hedge funds, but better.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
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3. TSX:DC.A (Dundee Corporation)
4. TSX:FFH (Fairfax Financial Holdings Limited)

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