Chapter 5  Discussion

In the last chapter of the thesis, the conclusion from the research is provided based on the analysis of survey results and previous research and industry findings. From the result, an accurate reflection is analyzed to provide the hedge fund industry and the general investing public in Taiwan more insightful information of how sophisticated investors in Hong Kong relate to hedge fund investment. Suggestions to investors are provided to evaluate opportunities of hedge funds and provide more exposure and increase investors understanding of this investment vehicle. For the hedge fund industry, several aspects are proposed to investigate the marketability of hedge fund in Taiwan based on the analysis of current market environment in Hong Kong.

5.1  Conclusion

This thesis has made an attempt to investigate the factors influencing hedge fund investment decisions for sophisticated investors in Hong Kong. A total of 31 respondents, mostly financial professionals, have participated the survey to test the factors identified from previous researches and further evaluate other causes influencing hedge fund investment decisions. For the tests of hypotheses H2, H3, H4, H8 and H14, H15, H16 and H17 are accepted. H1, H5, H6, H7, H9, H10, H11, H12 and H13 are rejected. Refer to Table 19.

For the testing of the consistency of the survey result to previous research findings, the regression statistics is used to determine the correlation between the factors influencing hedge fund investment decisions and the actual percentage of total
asset for hedge fund investment. From the result, the factor “investment risk” has shown moderate positive correlation. The factors “investment return” and “past performance” have shown fair degree of positive correlation. The factors “investor’s understanding”, “transparency” and “skill and experience of fund managers” have shown very little or no relationship.

For the hypotheses testing of the multi-dimension construct measurements of the factors between current hedge fund investors and non hedge fund investors, p-value is computed using non-parametric statistics analysis. The measurement of “investment return” for current hedge fund investors is greater than non hedge fund investors. The measurements of factors “investor’s understanding”, “investment risk”, “past performance”, “transparency” and “skill and experience of fund managers” of current hedge fund investors are not greater than non hedge fund investors.

For the most important factor influencing individual hedge fund investment decisions, 29% of investors have voted skill and experience of fund managers, with 22% for investor’s understanding and 22% for investment return. For the most important aspect that needs improvement for the hedge fund industry, 55% of investors voted for investor’s understanding.

Amongst all sophisticated investors, 45% currently invest in hedge funds and 55% do not have investment in hedge funds. For current hedge fund investors, 43% have hedge fund investment which accounts for 15%-30% of their total assets. When asked about increasing their allocation to hedge fund investment, 72% will increase allocation, 21% not sure and 7% will not. For non hedge fund investors, when asked about consider to invest in hedge funds, 64% will invest, with 24% not sure and 12% will not.
The results of the survey have shown moderate consistency to the factors identified from the previous researches and surveys conducted by academic scholars and industry professionals from the regression analysis. This thesis comes to the conclusion that these factors are clearly variables that influence investor’s hedge fund investment decisions. Nevertheless, investors are advised to have thorough understanding of the characteristics specifically related to hedge funds when making investment decisions. It is hoped that the hedge fund industry and regulators would incorporate these aspects for hedge fund product design and marketing.

5.2 Suggestions to the Investors in Taiwan

The result of the hedge fund survey for sophisticated in Hong Kong has indicated the importance of investor’s understanding. The respondents are mainly financial professional or executives in foreign brokerage firms or asset management companies. Investors that currently invest in hedge funds or wish to invest in hedge funds are advised to understand the product thoroughly. As mentioned previously in this thesis, hedge funds differ than other investment vehicles in many ways and have very unique structures. Therefore it is suggested that investors should learn the return and risk characteristics, different strategies and the role hedge funds play in the market associated with investment decisions. This thesis has provided basic information related to hedge fund investment for investor’s reference.

Under current regulations in Taiwan, hedge funds and foreign funds are not allowed to have open sales and marketing, although there are still a few channels for investors seeking to have access to hedge fund investment. Channels for the access of hedge fund are mostly through offshore financial advisors. Some securities firms are permitted to engage in the brokerage of foreign securities may introduce foreign funds
to their clients for their own brokerage purposes. Investors may invest in foreign funds through the non-discretionary funds at banks that have registered with the Financial Supervisory Commission.

5.3 Suggestions to the Hedge Fund Industry in Taiwan

Although the regulations in Taiwan has not yet been opened for the sale and marketing of hedge fund products, the asset management companies could be better prepared and be ready to participate in the hedge fund market is crucial once the regulations loosen. Investor’s understanding is the most important aspect regarding to hedge fund investment decisions. In order to increase investor’s understanding, asset management companies should provide professional training of financial advisors and consultants, hold seminars and tutoring events for the product and improve on access to funds through various marketing channels. The asset management companies should also disclose crucial information of each product and offer investors to have better access to data when required.

As mentioned previously in this thesis, the Hong Kong SFC is committed to accommodating market changes and facilitating investors' access to a wider range of investment products. The importance of investor education has been emphasized. More importantly, there is increasing retail interest in alternative investments in Hong Kong. Although the timeframe towards the market opening for hedge funds to enter in Taiwan is still unclear, Taiwan could use existing successful implementation and references from Hong Kong to get ready. A wider choice of products could be offered provided there are adequate structural safeguards and proper disclosures. Investors should understand the facts before making investment decision. Informed choices for investors will bring forth a broader and deeper market for the benefit of all.