

Hedge Funds With Style  
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**ABSTRACT**

The popular perception is that hedge funds follow a reasonably well defined market-neutral investment style. While this long-short investment strategy may have characterized the first hedge funds, today hedge funds are a reasonably heterogeneous group. They are better defined in terms of their freedom from the constraints imposed by the Investment Company Act of 1940, than they are by the particular style of investment. We study the monthly return history of hedge funds over the period 1989 through to January 2000 and find that there are in fact a number of distinct styles of management. We find that differences in investment style contribute about 20 per cent of the cross sectional variability in hedge fund performance. This result is consistent across the years of our sample and is robust to the way in which we determine investment style. We conclude that appropriate style analysis and style management are crucial to success for investors looking to invest in this market.

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