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MONDAY JULY 17 2006

further deterioration. Hungary is not just in a worrying condition, but is on the critical list.

Hedge fund strategies

What is a hedge fund for? There is renewed urgency to answering that question as more institutional money targets an industry that defies neat definition. A recent report prepared for the European Commission says rich individuals' share of the capital allocated to European hedge funds dropped from 62 per cent to less than half between 1996 and 2005.

One of the issues that mainstream fund managers face is deciding what they want from a hedge fund. The standard answer is "alpha", or absolute returns in excess of those provided by passive exposure to the market – usually attributed to clever fund managers. But verifying the achievement of true alpha in a rising market is difficult.

Searching for the brightest managers can be time-consuming and expensive. One alternative involves thinking of hedge fund strategies as offering exposure to types of risk – and their associated returns – that mainstream methods do not provide.

In a recent study, Andrew Ho and Jasmina Hasanhodzic, both at the Massachusetts Institute of Technology, constructed hedge fund clones using a handful of standard, liquid instruments like the S&P 500 index. Historic returns on those clones replicating equity long-short and convertible arbitrage strategies were not far short of their actual hedge fund counterparts.

Most hedge fund managers will not feel too threatened by such theoretical models. In those strategies where alpha is intuitively more important, such as event-driven, the clones were beaten easily. That said, recent weak performance in more volatile market conditions reminds investors that the industry's quota of true alpha-males (and females) is finite. Professor Ho's research suggests there are other ways to tap different types of risk-adjusted returns. It is also a reminder that not all hedge fund strategies are created equal.

LEX ON THE WEB

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For email go to **www.ft.com/nbe**

THE WEB VIEW

ISSUE OF THE WEEK: G8/ENERGY

Oil slick on road to G8

Energy might remain on the G8 agenda as oil prices soar, but Russia's other elected theme of transmissible diseases as host of this week's summit looked likely to be overshadowed by events in the Middle East. A joint press conference on Saturday by Vladimir Putin, Russia's president, and George W. Bush, US president, only confirmed a divergence of opinions between the two countries on key topics. Meanwhile, crude oil futures contracts deliverable from November until August 2007 remained above $80 a barrel.

■ Geoffrey Styles, an energy and strategy consultant based in Virginia, suggested the G8 concentrate on geopolitical problems affecting energy. "It's hard to focus our efforts on an enormous, gradual problem such as climate change, when everyone is fretting about terrorism, a widening conflict in the Middle East, Korean missiles and Iranian nukes."
energyoutlook.blogspot.com

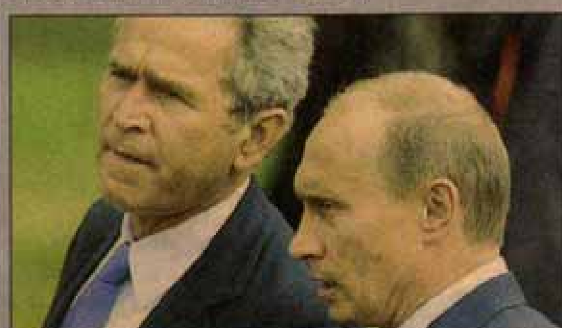
■ American economist Charles N. Steele wrote that this should be the last "G8" meeting. "Putin's Russia is not a part of the 'west', and has set its own non-western course in terms of domestic institutions and foreign policy."
unforeseencontingencies.blogspot.com

■ Stuart Studebaker, a peak oil advocate, believed Iran would dominate the US agenda. "Israel's invasion of Lebanon is one of those fortuitous terrible events and will provide suitable cover for the major powers to convene and deal with notions of Iran while the rest of the planet freaks out about Lebanon."
early-warning.blogspot.com

■ The UK blogger at **freepolitik.blogspot.com** wrote that the summit's focus on the Middle East was inevitable "Worldwide economies, relations, all are heightened by Israel and its neighbours...like it or not, that small bit of land on the east of the Mediterranean is the centre of our political landscape, with conflicts far and wide being affected by it."

■ A Moscow-based expat at **snowshoe.blogspot.com** posted the G8 image next to the star and sickle flag. "One can't help but wonder, however, whether the designer of Russia's G8 logo was inspired by a more famous symbol from Russia's past?"

By Kate Mackenzie and Kevin Allison



Diverse opinions: George W. Bush, left, and Vladimir Putin AP

BUSINESS

Facing the music

Music industry pundits were stunned by the annulment of the 2004 merger approval by Brussels that created Sony BMG. Industry watcher Bob Lefsetz said Impala, the independent music organisation that called for the action, had missed the point. "The problem isn't that Sony and BMG ... have merged but that people now want their music as files, not discs." **(lefsetz.com/wordpress)**. Musician Casey Stratton was not sad: "That merger marked the beginning of the end for me and many other artists on the Sony

WORLD

Beirut blame game

Escalating fighting between Hizbollah and Israel equally divided web commentators. Pro-Israel bloggers put the blame on Hizbollah's backers. "The Lebanese government has done nothing to curb the Hezbollah [sic] but Syria and Iran have been funding them," wrote Jason Weisberger **(bother.com)**. Abu Yusef, an Iraqi soldier, said Israel's attacks were "unjustified, foolhardy and, quite frankly, criminal". (abuyusef.blogspot.com). Rasha, a Beirut citizen, wrote: "I am 37 and I am afraid ... I am not defiant – there is no more fight left

ONLINE

China frees blogger

There was rejoicing after Hao Wu, the Chinese filmmaker and author of the Beijing or Bust blog, went free after being held in jail for 140 days without charge. Ethan Zuckerman and Rebecca MacKinnon of Harvard's Global Voices blog, after campaigning for his release, said: "It's impossible to know right now what will happen next, what caused his release at this time, or whether the story is completely over ... the global show of support will no doubt be a great source of strength as Hao recovers from his ordeal and copes with its

TODAY ON FT.COM

Breaking news

Our correspondents G8 will be filing da updates from the summ in St Petersburg. Go www.ft.com/g8

Middle East tensions w continue to dominate t meeting – latest news fr Israel and Lebanon is avai ble at **www.ft.com/ar israel**. Track the effect on prices and equities www.ft.com/markets.

Philips, the Dutch el tronics group, will publ its first-half results, as w Novartis, the Swiss-bas multinational pharmaceu cals company, and US ba Citigroup. For early cov age of all three, **www.ft.com/companies.**

Your say

Poll: Can the world liv with oil at $80 a barre

Geopolitical tensions, concerns over energy security and the prospect a strong hurricane seaso in the US are ratcheting oil prices. How should governments respond? An where will prices stabilis More than 40 per cent of readers voting in our pol think oil will go to over $90 per barrel. Have your say and vote at www.ft.com/oilpoll.

Most read on FT.con

Top stories for the week ending July 16

1. Syria and Iran told to rein in Hizbollah
2. Mumbai commuter trai blasts kill 170
3. Russia warns west not interfere
4. Minorities fear reprisal
5. US reverses policy on military detainees
6. Israel launches two-pronged attacks
7. Japan ends zero-rate policy after six years
8. Bush and Putin at odd over Middle East violence
9. FTSE 100 weaker as oil stocks slip