The Global Mark of Distinction in Alternative Investments

Director of Curriculum
Keith Black, Ph.D., CAIA, CFA

Keith Black has over twenty years of financial market experience, serving approximately half of that time as an academic and half as a trader and consultant to institutional investors. He currently serves as Director of Curriculum for the CAIA Association. During his most recent role at Ennis Knupp + Associates, Keith advised foundations, endowments and pension funds on their asset allocation and manager selection strategies in hedge funds, commodities and managed futures. Prior experience includes commodities derivatives trading, stock options research and CBOE floor trading, and building quantitative stock selection models for mutual funds and hedge funds. Dr. Black previously served as an assistant professor and senior lecturer at the Illinois Institute of Technology.

He contributes regularly to The CFA Digest, and has published in The Journal of Global Financial Markets, The Journal of Trading, The Journal of Financial Compliance and Regulation, The Journal of Investing, The Journal of Environmental Investing, and Derivatives Use Trading and Regulation. He is the author of the book "Managing a Hedge Fund," as well as the co-author of the 2012 second editions of the CAIA Level I and Level II textbooks. Dr. Black was named to Institutional Investor magazine's list of "Rising Stars of Hedge Funds" in 2010.

Dr. Black earned a BA from Whittier College, an MBA from Carnegie Mellon University, and a PhD from the Illinois Institute of Technology. He has earned the Chartered Financial Analyst (CFA) designation and was a member of the inaugural class of the Chartered Alternative Investment Analyst (CAIA) candidates.

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Dr. Black is available to speak on the following topics. Presentations on commodities, endowment investing, portfolio diversification and inflation protection are less technical talks, while those on VIX and hedge fund replication are advanced talks for more technical audiences.

Commodities: Boom or Bust? The Case for a Strategic Allocation

Institutional investment in commodity futures programs has increased substantially in recent years. The attraction to commodities rests on the potential to hedge against increasing inflation, as well as the low correlation to stock and bond markets. There is concern, however, that increasing asset flows has led commodities to become more of a financial asset, which has increased the correlation of commodity returns to those of financial markets. Ultimately, commodity prices are set by supply and demand, which differs over the course of the business cycle.

The Role of Institutional Investors in Rising Commodity Prices

As institutional investment in commodity futures has risen substantially in recent years, commodity prices have also risen. In an attempt to stem the rise in commodity prices, some politicians have sought to restrict institutional investment in commodity futures markets. However, a direct link between institutional investment and rising prices has not been established. Other factors that may be more influential on the recent rise in commodity prices can be restricted supply, growing demand from biofuels and emerging markets, as well as currency market influences.

Funds of Hedge Funds

Funds of hedge funds can be highly effective at diversifying risk over a number of hedge fund styles and managers. The goals and value added of funds of funds managers are presented. However, funds of hedge funds have been suffering outflows, as the extra fee burden can make these vehicles less attractive when compared against multistrategy hedge funds or a portfolio of hedge funds built by an investor. Specific comparisons between funds of funds, multistrategy funds and direct investment in hedge fund portfolios are explored. The changing nature of the hedge fund industry since 2008 is discussed.

Portfolio Diversification Revisited: Lessons Learned from Previous Cycles

In a crisis, do all correlations converge to one? No! While the correlations of short volatility, convergent strategies do rise substantially in a crisis, there are a number of assets that can rise in value during a crisis. Assets showing the ability to hedge tail risk during times of crisis include sovereign debt, macro hedge funds, managed futures strategies, equity index put options, and some forms of volatility arbitrage.

Protecting your Portfolio from Inflation: The Case for Real Assets

Many investors are seeking to add assets to their portfolio that can be effective in hedging increasing rates of inflation. Assets that have been considered to hedge inflation risk include equities, real estate, commodity futures, farmland, timberland, inflation-linked bonds, infrastructure and master limited partnerships. Each of these assets varies in its ability to hedge inflation risks, as well as in the liquidity provisions.

Harvard, Yale, and Alternative Investments: A Post-Crisis View

Managers of the world's largest endowment and foundation portfolios have long made substantial allocations to alternative investments. With stellar returns and alternatives allocations as large as 60% of assets, the endowment model has attracted admirers and imitators. What is the source of the returns earned by these successful endowments? Can emulating the alternative investment exposure of large endowments lead to similarly high returns? How has the perception and practice of the endowment model changed after the large drawdowns experienced in 2008?

An Empirical Investigation of the CBOE Volatility Index (VIX) as a Hedge for Equity Market and Hedge Fund Investors

Adding long positions in the VIX index has proven effective at reducing the risk of long positions in equity markets or hedge fund investments. Now that futures on the VIX index have been trading for more than five years, the data is available to evaluate the portfolio characteristics of adding positions in VIX futures to a portfolio. The cost and hedging effectiveness varies substantially with the contract selection within the VIX futures market.

Hedge Fund Investing: Latest Developments in Hedge Fund Replication

First generation hedge fund replication consisted of measuring the factor risk of a hedge fund, and taking exposures in index tracking products to replicate those estimated exposures. In this case, replication with liquid products may forego earning the liquidity or complexity premia earned by many hedge fund strategies. Second generation replication products seek to mimic hedge fund strategies by investing in an indexed version of the underlying hedge fund strategy, such as taking long-short positions in stocks to replicate a merger arbitrage strategy. The betas of hedge fund strategies are decomposed into traditional betas, exotic betas, while "alpha" is explained through liquidity, complexity, leverage, event risks, security selection and market timing.

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