

Monitoring Systemic Risk in the Hedge Fund Sector

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Abstract : We propose measures for systemic risk generated through intra-sectorial interdependencies in the hedge fund sector. These measures are based on variations in the average cross-effects of funds showing significant interdependency between their individual returns and the moments of the sector's return distribution. The proposed measures display a high ability to identify periods of financial distress, are robust to modifications in the underlying econometric model and are consistent with intuitive interpretation of the results.

Keywords : hedge funds, systemic risk, vector autoregressive model, risk monitoring

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