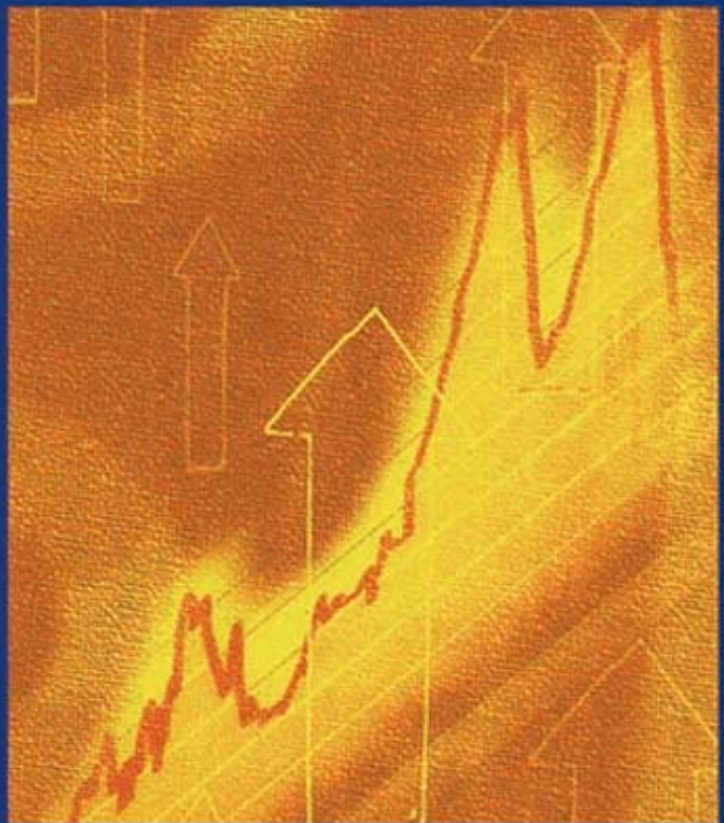


THE FRANK J. FABOZZI SERIES

Market Neutral Strategies

WILEY FINANCE



Bruce I. Jacobs & Kenneth N. Levy editors

With a Foreword by Mark Anson, PhD, Chief Investment Officer, CalPERS

Market Neutral
Strategies

BRUCE I. JACOBS
KENNETH N. LEVY
EDITORS



WILEY

John Wiley & Sons, Inc.

Copyright © 2005 by Bruce I. Jacobs and Kenneth N. Levy. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey
Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400, fax 978-646-8600, or on the web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, 201-748-6011, fax 201-748-6008.

Limit of Liability/Disclaimer of Warranty: While the publisher and authors have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor authors shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services, or technical support, please contact our Customer Care Department within the United States at 800-762-2974, outside the United States at 317-572-3993 or fax 317-572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

For more information about Wiley products, visit our web site at www.wiley.com.

ISBN: 0-471-26868-2

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Contents

Foreword	xiii
Mark Anson	
Acknowledgments	xv
About the Editors	xvi
Contributing Authors	xvii
CHAPTER 1	
Introduction	1
Bruce I. Jacobs and Kenneth N. Levy	
CHAPTER 2	
Questions and Answers About Market Neutral Investing	9
Jane Buchan, Bruce I. Jacobs, and Kenneth N. Levy	
CHAPTER 3	
Market Neutral Equity Investing	21
Bruce I. Jacobs and Kenneth N. Levy	
CHAPTER 4	
Convertible Bond Hedging	47
Jane Buchan	
CHAPTER 5	
Sovereign Fixed-Income Arbitrage	59
John Maltby	
CHAPTER 6	
Market Neutral Strategies with Mortgage-Backed Securities	85
George E. Hall and Seth C. Fischhoff	
CHAPTER 7	
Merger Arbitrage	107
Daniel S. Och and Todd C. Pulvino	
	xi

CHAPTER 8	
Transporting Alpha	131
Bruce I. Jacobs and Kenneth N. Levy	
CHAPTER 9	
A Tale of Two Hedge Funds	147
Bruce I. Jacobs and Kenneth N. Levy	
CHAPTER 10	
Significant Tax Considerations for Taxable Investors in	
Market Neutral Strategies	173
Peter E. Pront and John E. Tavss	
CHAPTER 11	
Tax-Exempt Organizations and Other Special Categories of Investors:	
Tax and ERISA Concerns	223
Peter E. Pront and S. John Ryan	
CHAPTER 12	
Afterword	245
Bruce I. Jacobs and Kenneth N. Levy	
GLOSSARY	251
INDEX	269