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The Meltdown Of The Hedge Funds – And Its Effect On The Market – Was Foreseeable

By Global Research

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The hedge funds are melting down, and dragging the rest of the markets with them.

As a Wall Street Journal *article from today entitled "Hedge Fund Selling Puts New Stress on Market" notes, "Hedge funds are selling billions of dollars of securities to meet demands for cash from their investors and their lenders, contributing to the stock market's nearly 10% drop over the past two days".*

Was the meltdown of the hedge funds – and its effect on the market – foreseeable?

Yes.

In a speech given at NYU law school on April 11, 2007, Fed. chairman Bernanke rationalized lax oversight of hedge funds, then warned about what is now unfolding:

> "Regulatory oversight of hedge funds is relatively light … the light regulatory touch seems largely justified.
>
> However, the growing market share of hedge funds has raised concerns about possible systemic risk. . . . many hedge funds are either highly leveraged or hold positions in derivatives or other assets that make their net asset positions very sensitive to changes in asset prices . . . . leverage also increases the risks to the broader financial system. The failure of a highly leveraged fund holding large, concentrated positions could involve the forced liquidation of those positions, possibly at fire-sale prices, thereby imposing heavy losses on counterparties. In the worst scenarios, these counterparty losses could lead to further defaults or threaten systemically important institutions. In addition, market participants that were not creditors or counterparties of the defaulting firm might be harmed indirectly through changes in asset prices, liquidity strains, and increased market uncertainty."

Stay tuned … the full effect of all of the forced selling and defaults by hedge funds hasn't yet been felt.

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