Business Owners best Hedge

Today Hedge funds are more popular than ever. Why? Investors are more comfortable as they are more knowledgeable and have increased access to a plethora of information. Hedge funds have evolved significantly since 1949. Modern hedge funds offer a variety of strategies, including many that do not involve traditional hedging techniques. The industry has also rapidly grown, with recent estimations pegging its size at $1 trillion - quite the leap from the $100,000 used to start the first fund half a century ago.

(Read more: A Brief History Of The Hedge Fund | Investopedia
http://www.investopedia.com/articles/mutualfund/05/hedgefundhist.asp#ixzz4QJ3Wqpty)

What is a 'Hedge'?

A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. Many hedge funds also use an investment technique called leverage, which is essentially investing with borrowed money—a strategy that could significantly increase return potential, but also creates greater risk of loss. In fact, the name “hedge fund” is derived from the fact that hedge funds often seek to increase gains, and offset losses, by hedging their investments using a variety of sophisticated methods.

A perfect hedge is one that eliminates all risk in a position or portfolio. In other words, the hedge is 100% inversely correlated to the vulnerable asset. This is more an ideal than a reality on the ground, and even the hypothetical perfect hedge is not without cost. Basis risk refers to the risk that an asset and a hedge will not move in opposite directions as expected.

Hedging is analogous to taking out an insurance policy. If you own a home in a flood-prone area, you will want to protect that asset from the risk of flooding – to hedge it, in other words – by taking out flood insurance. There is a risk-reward tradeoff inherent in hedging; while it reduces potential risk, it also chips away at potential gains. Put simply, hedging isn't free. In the case of the flood insurance policy, the monthly payments add up, and if the flood never comes, the policy holder receives no payout. Still, most people would choose to take that predictable, circumscribed loss rather than suddenly lose the roof over their head.

Not only is insurance an analogous to a Hedge, Insurance is a Hedge! When a business owner insures his or her business with their own insurance company, Captive Insurance, the business owner is hedging the good times ahead as well as the uncertain, less frequent bad times.

Specifically, when a business is profitable, operating without much loss, the insurance company retains these earnings in the form of Surplus. Conversely, when circumstances create a loss of income, the business owner then makes a claim against that loss. The claim is paid in part, from a pool of Captive insurance owners. Captive insurance protects against financial loss due to regulatory change, loss of a key contract- employee - or supplier, cyber risk, along with a long list of additional risks that are unique to any given business.

History has shown that traditional Hedge funds are risky. Insurance is the antithesis of risk. Captive insurance reduces risk and often is the link to security for you and your business. Your Captive Hedge reduces risk and builds wealth in the process and is a business owner's best Hedge.

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Captive Insurance Services

Your Link to Security!

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