



## Efficiently Inefficient: How Smart Money Invests and Market Prices Are Determined

By Lasse Heje Pedersen

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*Efficiently Inefficient* describes the key trading strategies used by hedge funds and demystifies the secret world of active investing. Leading financial economist Lasse Heje Pedersen combines the latest research with real-world examples and interviews with top hedge fund managers to show how certain trading strategies make money--and why they sometimes don't.

Pedersen views markets as neither perfectly efficient nor completely inefficient. Rather, they are inefficient enough that money managers can be compensated for their costs through the profits of their trading strategies and efficient enough that the profits after costs do not encourage additional active investing.

Understanding how to trade in this efficiently inefficient market provides a new, engaging way to learn finance. Pedersen analyzes how the market price of stocks and bonds can differ from the model price, leading to new perspectives on the relationship between trading results and finance theory. He explores several different areas in depth--fundamental tools for investment management, equity strategies, macro strategies, and arbitrage strategies--and he looks at such diverse topics as portfolio choice, risk management, equity valuation, and yield curve logic. The book's strategies are illuminated further by interviews with leading hedge fund managers: Lee Ainslie, Cliff Asness, Jim Chanos, Ken Griffin, David Harding, John Paulson, Myron Scholes, and George Soros.

*Efficiently Inefficient* effectively demonstrates how financial markets really work.

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### Editorial Review

#### Review

"Pedersen's book can be recommended to a wide spectrum of readers interested in financial markets in general and hedge funds in particular."--**Jacek Klich, *Central Banking***

"Encyclopedic in its cataloguing of active management strategies and authoritative in its analysis of the practical issues of their implementation. Pedersen grounds his exposition in landmark scholarly articles and, where quantitative analysis is required to elucidate a concept, conveys his message without resorting to arcane mathematics."--**Martin S. Fridson, *Financial Analysts Journal***

"Despite the author's high level of understanding he manages to deliver a high quality but also easily understandable guide to the strategies."--**Mats Larsson, *Investing by the Books***

#### From the Back Cover

"This valuable and intriguing book provides a contemporary survey of investments across a wide spectrum of asset classes and strategies. Combining a wonderful narrative with a rigorous analytical structure, *Efficiently Inefficient* serves the needs of students, serious investors, and professionals. It is an important contribution to the investment literature."--**Gary P. Brinson, CFA, GP Brinson Investments**

"For a book on investments, *Efficiently Inefficient* sets a completely different and higher standard. Pedersen blends the best and latest research, accessible to both MBA students and professionals, with the insights of some of the world's leading hedge fund managers. It works beautifully."--**Darrell Duffie, Stanford University**

"*Efficiently Inefficient* is a truly modern and masterful introduction to how finance will be studied and practiced in the twenty-first century."--**Andrei Shleifer, Harvard University**

"How are markets efficient enough to stump most investors, yet inefficient enough to allow hedge fund managers to earn huge profits? Lasse Pedersen, who has contributed greatly to the 'new finance' of liquidity and financial frictions, answers this question with a tour-de-force combination of original research and provocative interviews with hedge fund managers."--**Laurence B. Siegel, CFA Institute Research Foundation**

"Lasse Pedersen is a gifted financial market theorist who understands that theory is most satisfying when it is combined with a deep practical understanding of institutional detail and market frictions. This terrific book showcases his strengths in all of these dimensions."--**Jeremy Stein, Harvard University**

"This accessible book explains hedge fund strategies and how to design, construct, evaluate, implement, and risk manage them. The section on securities lending and borrowing is interesting and novel, and Pedersen's discussion of macro and central bank strategies is one of the best I have seen in any book on hedge funds. His account of portfolio construction is superior."--**Robert Kosowski, Imperial College Business School**

"*Efficiently Inefficient* bridges academic finance and the practice of finance. Students will appreciate the insights of top investment managers and the sections on transactions costs and liquidity are especially valuable. I will use the book in my graduate course on investment and I highly recommend it to all those

working in the investment management industry."--**Campbell R. Harvey**, editor of the *Journal of Finance* (2006-2012)

About the Author

**Lasse Heje Pedersen** is a finance professor at Copenhagen Business School and New York University's Stern School of Business, and a principal at AQR Capital Management. A distinguished financial economist, he has won a number of awards, notably the Bernácer Prize, awarded to European economists under forty who have made outstanding contributions in macroeconomics and finance.

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