

**Opening Remarks Honorable Maxine Waters D-35th
CA**

Committee on Financial Services

Hearing on

**“Hedge Funds and Systemic Risk in the Financial
Markets”**

Tuesday, March 13, 2007

**2128 Rayburn House Office building
10:00AM**

Good morning ladies and gentlemen. I want to thank Chairman Frank and Ranking Member Bachus for holding the first of a series of hearings on the issue of hedge funds. These hearings are designed to examine the emerging role of hedge funds and private equity pools in the U.S. and global markets.

Indeed, this is a timely hearing because I have become fascinated by hedge funds and their dramatic growth over the last several years. The estimates suggest that hedge funds have grown in number to more than 9,000, double what they were just five years ago. The assets have also grown by some 400 percent to \$1.4 trillion. The primary purpose of hedge funds is to reduce volatility and risk while attempting to preserve capital and deliver positive returns under all market conditions. Have the funds grown because they are the most flexible investment tool in today's volatile financial system?

I ask this question because, just last week it was revealed that a number of hedge funds are heavily invested in mortgage backed securities related to subprime loans. Unfortunately, it is precisely this type of investment

activity that raises concern in the market place. I am sure that we have just seen the tip of the iceberg as it relates to subprime lending – 2.2 million defaults according to some estimates by next year.

Interestingly, some hedge fund strategies are designed to capitalize on these negative conditions in the market. So, what are the costs/benefits associated with hedge fund activity in the U.S and global economy? Thank you.