As I watch and read about the Hedge Fund testimony currently going on, its obvious that the right question has not been asked.

1. Those who give money to hedge funds rarely if ever have a 1 year investment term. In fact, the contracts for investment do everything possible to lock up your money for as long as possible.

vs

Hedge Fund Managers pay themselves on an annual basis.

That is a huge disconnect and there in lies the rub. While it is true that the managers are paid on a performance basis (plus their 2pct of assets) and some even have clawback provisions, that is not enough. If a fund can get big enough, all they have to do is max out in a single year and the managers are set for life. They put hundreds of millions of dollars EACH in their pocket.

The investors on the other hand, can not max out returns in a single year. They are locked in. So there is a huge disconnect. Managers think short term, investors long term. Managers should be paid on their performance over a much longer period.

If you made the minimum period for managers 36 months, you would see wholesale changes in how investments are made by Hedge Funds.

So, back to the Testimony today. The questions I would ask ?

How long does the average investor stay in your funds ? Why arent you paid based on the same term rather than annually ?