Hedging is The best way to understand hedging is to think of it as insurance.Portfolio managers, individual investors and corporations use hedging techniques to reduce their exposure to various risks In financial markets, however, hedging becomes more complicated than simply paying an insurance company a fee every year Hedging against investment risk means strategically using instruments in the market to offset th e risk of any adverse price movements In other words, investors hedge one investment by making another Technically, to hedge you would invest in two securities with negative correlations.If the investment you are hedging against makes money, you will have typically reduced the profit that you could have made, and if the investment loses money, your hedge, if successful, will reduce that loss.According to the risk-return tradeoff, invested money can render higher profits only if it .is subject to the possibility of being lost