THE JOURNAL OF ALTERNATIVE INVESTMENTS

VOLUME 1, NUMBER 4 SPRING 1999

Despite the warnings of many commentators, recent events in the investment world did not bring down either traditional or alternative investments. In fact, many alternative investment strategies performed as expected. However, given the concern over the performance of various alternative asset strategies, in the first article, Goldman, Sachs & Co. and Financial Risk Management Ltd. point out the wide variety of strategies included under the title of alternative investments. In particular, they focus on the performance of one alternative investment approach that has come under special scrutiny, the market neutral strategy.

Several of the concerns raised by investors in recent months were related both to the management capability of the various investment management firms as well as to the impact of the underlying leverage and market conditions related to the performance of that strategy. In the next article, Harlan and Marjorie Platt analyze these various features on the success and failure of an alternative investment strategy that did not receive much coverage during the fall, that of leveraged buyouts.

Again, given concerns about possible problems associated with various alternative investments, it is important to remind ourselves that hedge funds and other investment vehicles provide the basic service of permitting banks, investment firms, and insurance firms to transfer balance sheet and cash flow risk to other investors. For example, as financial markets converge, insurance companies are increasing their efforts to market new forms of instruments that permit investors to invest directly in various forms of insurance risk. In the next article, David Mordecai describes and provides examples of how insurance and reinsurance-linked derivative securities have emerged as a new asset class for investors.

While new investment forms continue to enter the marketplace, it is also important to keep abreast of new approaches to understand the pricing and performance of existing investments used in alternative investment strategies. Sanjay Nawalkha, Jun Zhang, and Donald Chambers provide an additional approach to the pricing of floaters and interest rate swaps by focusing on the interest rate sensitivity of such issues. Understanding the pricing and factor sensitivity of derivative-based financial instruments is critical if financial institutions are to be

THE JOURNAL OF ALTERNATIVE INVESTMENTS

comfortable with their lending practices to various investment managers. In the next article, Laurie Goodman explores the impact of the possible reduction in leverage as well as increased capital concerns on the hedge fund industry.

In the next two articles, we continue with our practice of one academic article and one practitioner article dealing with particular concerns in the alternative investment area. In the first article, Nikunj Kapadia reminds us that simple models of options on spreads must address the concern that, depending on market conditions, the volatility of a spread may increase or decrease. In the next article, George Crapple discusses his concern, that after LTCM, investors may wish to put all alternative strategies into the same bucket. He reminds us of many of the critical differences between what may be called hedge fund strategies and those often described as managed futures.

In the last article, Kristaps Licis continues his quarterly review of various web sites with an analysis of web sites offered by various government agencies internationally. In future volumes, readers can continue to expect not only articles dealing with specific issues of alternative investments, but also short academic and practitioner commentary on issues of interest. In addition, in future volumes we will introduce a quarterly section in which various alternative investment managers describe the bases behind their strategies. We hope readers find these "practitioner comments" of interest, but, as in most areas of investment, we must remind readers that these comments are those of the authors and are included to stimulate discussion as well as to inform readers.

As always, we appreciate your readership and look forward to your comments and submissions.

Thomas Schneeweis
Editor