The Journal of Alternative INVESTMENTS
Official Publication of CAIA Association®

VOLUME 12 NUMBER 1 SUMMER 2009

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As the credit crisis moves from credit depression to credit recession, dramatic changes have occurred within the alternative investment universe. Unfortunately, there is little certainty where these changes will lead us to and what the market structure or regulatory environment will look like at the end of the recession. One question that remains to be answered is to what degree we have learned anything from the recent credit crisis as it relates to systemic risk and the risk and return relationship among assets. Before the credit crisis, the decoupling of emerging markets from the United States was the "issue du jour." The global impact of the credit crisis reinforced the common movement among all risky assets in periods of crisis. As we move out of the credit crisis to credit recession, again individuals are trying to evoke the decoupling argument. In short, the fundamental issue of how markets move and the degree to which they move together remains at the heart of investment management. In the first article in this issue of the *Journal of Alternative Investments*, "Dynamic Conditional Correlation Models in a Multiple Financial Asset Portfolio," Martin Groth and Per Thastrom examine two dynamic conditional correlation models to forecast correlation. Previous research on the merits of these two advanced models has been mixed. Their results show that neither model provides any additional information over a sample-based approach when evaluated using a simple parametric value at risk (VaR) measurement. Used in risk monitoring, the models provide sound risk estimates but provide no additional insights in forecasting correlation spikes. Correlation relationships that are drawn from empirical data are, of course, dependent upon the return intervals used in that analysis. In the second article, "Non-Parametric Analysis of Hedge Fund Returns: New Insights from High Frequency Data," Monica Billio, Mila Getmansky, and Loriana Pelizzon analyze investable and non-investable hedge fund index returns. Their study, based on standard statistical analysis, non-parametric analysis of the return distribution, and non-parametric regressions with respect to the S&P 500 index, shows that key biases like fund selection, asset liquidity, data frequency, sample period, and index construction methodologies are responsible for different statistical properties of hedge fund indices. One key variable that highly affects the statistical properties of hedge fund index returns is the "investability" of hedge fund indices.

While individuals must be aware of the systemic impacts across all markets, fundamental information as to the structure and process of individual strategies remains at the heart of any knowledgeable investor. The next section presents articles on investment strategies. In this issue's third article, "Internally versus Externally Advised Non-Brokerage Real Estate Firms," Justin D. Benefield and Mark K. Pyles examine the characteristics that lend themselves to third-

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party advising as an optimal management structure for REITs. They examine the decision from a perspective of profit maximization, seeking to identify significant relations between various REIT characteristics and third-party participation. Results indicate that only a REIT's status as publicly traded and, correspondingly, the size of the firm, significantly influence the choice of internal versus external advising structure. In addition, after matching by firm type and size, they find that externally-advised firms experience higher returns on average assets and average equity. This finding contrasts with previous results using earlier time periods in which externally-advised REITs were shown to underperform their internally-advised counterparts. In the fourth article, "The Way Ahead for Exchange-Traded Funds: Results from a European Survey," Noël Amenc and Felix Goltz describe the role of exchange-traded funds (ETFs) in the implementation of exposure to various asset classes based on a recent survey of European professional investors and asset managers. They provide insights into the current use of liquid index trackers and into the prospects, as revealed by survey responses, for growth in the use of these instruments. The findings show that liquidity is perceived as a key advantage of ETFs over indexing vehicles like traditional index funds and total return swaps. Likewise, the tracking quality of ETFs is judged to be highly satisfactory compared to other indexing vehicles. The findings also shed some light on the methods investors use to evaluate liquidity and tracking error.

While many individuals continue to promote well-known strategies, new investment opportunities likewise continue to evolve with changes in market structure and regulation. The third section of this issue presents an article on innovative alternatives. In contrast to the more established alternative asset classes like real estate or hedge funds, there is not much research available for investments in shipping. In the issue's fifth article, "Diversification Properties of Investments in Shipping," Michael B. Grelck, Stefan Prigge, Lars Tegtmeier, and Mihail Topalov investigate the diversification properties of investments in shipping. During the sample period, an investment in shipping stocks earned an attractive risk-return combination. In general, the addition of an investment in shipping stocks to a base portfolio of stocks and bonds enhanced diversification. The results also reveal other insights. First, the composition of the shipping stocks portfolio mattered much. Compared with the MSCI World Marine Index, which is a capitalization-weighted aggregate of 10 stocks, the diversification benefit of the broader and equally-weighted shipping stocks portfolio of our Research Index of 41 stocks was much more pronounced and somewhat statistically significant. Second, diversification properties were not stable through the course of time with larger diversification benefits during the bear market from March 2000 to March 2003 compared to the bull market from April 2003 to October 2007. The positive overall view of the diversification properties of shipping stocks is based on a single full stock market cycle.

Lastly, the recent investment crises brought to light not only failures of regulation and investment understanding at the macro level but also failures at the micro level, specifically relating to manager and product oversight. The final section presents articles on hedge fund failures and the importance of manager due diligence. In the issue's sixth article, "Who Invested with Madoff? A Flash Analysis of Fund of Funds," George A. Martin examines whether funds of funds that invested with Madoff have any common characteristics. This question is of particular importance to the end investor, who has historically relied on the FOF industry to provide both manager selection and due diligence services. The results of this study should help investors and their consultants better identify those intermediaries who are less poised to deliver investment management services with respect to hedge funds. The article analyzes a set of FOFs that includes FOFs that were or were not invested with Madoff. The results show some relatively weak commonalities in the empirical characteristics of FOFs that invested in Madoff. Unfortunately, the apparent commonalities are insufficient in themselves to accurately and effectively predict which FOFs sought and acquired exposure to Madoff. In the final article, "How Do Investment Managers Think? A Framework for Decision-making Due Diligence," Mark S. Rzepczynski employs the Expected Utility and Case-Based Reasoning frameworks to assess the decision process of investment managers against the problem of accounting for knowledge and the type of investment decision faced. Categorizing and contrasting these frameworks can provide a means for distinguishing managers beyond their performance and provide a rich method for analysis of fund behavior by

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potential investors. Analyzing how decisions are made provides an enhanced framework to supplement the three P's approach of Performance, Philosophy, and Pedigree that is often used as the foundation for investment due diligence.

As a final note, I would like to take this opportunity to note the passing of two individuals who were true pioneers in the investment management area. For those who remember, Greg Newton was a primary mover in the creation and growth of the managed futures and hedge fund indices, as the former president of Managed Account Reports and the man who launched MAR Hedge, as well as through his blog, Naked Shorts. More importantly, Greg was always there to help a young academic better understand these markets with a knowledge and understanding that helped many new authors create careers for themselves. In many of my best articles, Greg was in reality the true author of the ideas expressed. For all those who knew him, he will be sorely missed.

Peter Bernstein may be best remembered for his provocative but always insightful comments in the *Journal of Portfolio Management* as well as his two classic books, *Against the Gods: The Remarkable Story of Risk* and *Capital Ideas: The Improbable Origins of Modern Wall Street*." I remember him best for the time he gave to me when I was thinking of starting the *Journal of Alternative Investments*. His brief comment was that in starting any journal, make sure you have a lot of friends, because you will need to abuse them for the journal to be successful. Without Peter as a friend (and one I abused more often than I should have with calls for advice and counsel), the *Journal of Alternative Investments* would probably have never been started (at least by me), and I am sure would never have reached its level of success. Peter's counsel will live on in the books and articles he wrote, in the individuals who benefited from his writings, and all of those who had the fortune of meeting and working with him.

The world will be a smaller place without Greg and Peter.

Thomas Schneeweis
Editor

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