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When market stress and disruptions hit investor portfolios especially hard, it is natural for investors to ask if anything could have been done differently. The market turmoil following September 2008 offers us the opportunity to rethink and challenge conventional ideas regarding asset allocation. In the first article of this issue of *The Journal of Alternative Investments*, "Non-Normality of Market Returns: A Framework for Asset Allocation Decision Making," Abdullah Z. Sheikh and Hongtao Qiao present a statistical methodology that can incorporate three categories of non-normality: serial correlation, "fat" left tails (negative skew and leptokurtosis), and correlation breakdown (converging correlations). Their results show that extreme negative events due to non-normality of asset returns are observed with much higher frequency than current risk frameworks allow for. Consequently, traditional asset allocation frameworks that are based on assumptions of normality in asset returns can significantly understate portfolio downside risk. They conclude that incorporating non-normality can lead to more efficient portfolios.

Another issue evident in the recent market crisis is that many alternative investments, including hedge funds, did not offer investors the liquidity they had come to expect. Hedge fund replication products are one means to offer hedge fund returns in a more liquid form. Replication products generally fall into three approaches: reverse engineering, factor-based, or distribution-based. In the second article, "How Do Hedge Fund Clones Manage the Real World?" Erik Wallerstein, Nils S. Tuchschmid, and Sassan Zaker analyze the performance of several replication products offered by various asset management companies. Their results show that the return distributions are heterogeneous among the set of replication products. They conclude that investors should thoroughly evaluate replication models to determine their suitability in institutional portfolios.

The role of different asset classes in asset allocation has also been brought back into focus during the recent market crisis. For example, the impressive rise in commodity prices from 2002 and their subsequent fall since July 2008 have revived the debate on the role of commodities in the strategic and tactical asset allocation processes. The next section presents issues related to commodity investment. In the third article, "The Optimal Approach to Futures Contract Roll in Commodity Portfolios," Tammam Mouakhar and Mathieu Roberge discuss the necessity of managing the futures contract roll and argue that most commodity index providers set futures rollover rules in an inefficient manner. They present an optimal approach that maximizes gains with a term structure in backwardation and minimizes losses with a term

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structure in contango. The benefits of this approach are illustrated by comparing the performance using this approach to that of the standard approach to rollover. The comparison is done both at the individual commodity level and at the portfolio level. Results confirm the crucial importance of handling roll operations in commodity futures investing and show that an optimized approach to roll could improve performance. In the fourth article, "Conditional Correlation and Volatility in Commodity Futures and Traditional Asset Markets," James Chong and Joëlle Miffre examine conditional correlations between various commodity futures with stock and fixed-income indices. Conditional correlations with equity returns fell over time, which indicates that commodity futures have become better tools for strategic asset allocation. The correlations between the S&P 500 Index and several commodities also fell in periods of above-average volatility in equity markets. This is desirable for long institutional investors as they need the benefits of diversification most in periods of high volatility in equity markets. Similarly, the results suggest that adding commodity futures to T-bill portfolios reduces risk further in volatile interest rate environments. In the fifth article, "Commodities and Equities: Ever a 'Market of One'?" Bahattin Büyükşahin, Michael S. Haigh, and Michel A. Robe apply dynamic conditional correlation and recursive co-integration techniques to show that compared to the 1991–2002 period, both short- and long-term relationships between passive commodity and equity investments are generally weaker after 2003. However, they find little evidence of a secular increase in spillovers from equity to commodity markets during extreme events.

The final section presents perspectives on venture capital and private equity investing. Growth expectations and institutional settings in central eastern Europe are assumed favorable for the establishment of vibrant venture capital and private equity markets. However, there is only a small amount of capital market activity in the region. In the sixth article, "Limited Partners' Perceptions of the Central Eastern European Venture Capital and Private Equity Market," Alexander P. Groh, Heinrich V. Liechtenstein, and Miguel Canela examine the obstacles to institutional investments in central eastern Europe through a questionnaire addressed to limited partners worldwide. The respondents provide information about their perceptions of the region. The protection of property rights is the dominant concern, followed by social criteria (such as the belief in the entrepreneurial management quality of local people), and the relatively small size and low liquidity in the central eastern European capital markets.

As we move forward, the financial markets we trade in, the government regulations that oversee financial markets, and the products we use to meet investor needs will all differ from those previous to the market crash. This offers both a risk and an opportunity for asset managers and investors alike. For those of us in the education area, those risks and opportunities are especially clear. We must rethink what we have said and why we said it. *The Journal of Alternative Investments* looks forward to hearing from all of you as to your views of the new financial world.

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