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As discussions continue on the role of government regulation and oversight of the financial industry, it is perhaps valuable to remind ourselves of the difficulty of protecting investors from all forms of fraud and market manipulation. This issue begins with an article related to the ability to provide proper insight into hedge fund operations. In "Madoff: A Returns-Based Analysis," Thomas Schneeweis and Edward Szado raise a fundamental question: Were there any reasonable means by which the typical investor and/or consultants could have determined that the various investment vehicles by which investors accessed Madoff were not in fact offering what they claimed? While a detailed due diligence analysis of the Madoff infrastructure that included various feeder funds as well as Madoff's auditing, custodial, and prime brokerage relationships may well have dissuaded investors or their consultants from investing in Madoff, most individual investors have neither the financial resources nor the skill to conduct such an analysis. This article examines a number of empirical characteristics derived from return streams of several Madoff feeder funds whose return data were available in various databases. Results show that potential problems were evident in the footprint of the returns, but unfortunately those footprints were well hidden. Unlike mutual funds, hedge funds are reluctant to provide detailed information on their investment portfolios. However, incomplete disclosure can have some undesirable side effects. In the second article, "Hedge Fund Transparency: Where Do We Stand?" Felix Goltz and David Schröder present the results of a comprehensive survey of hedge fund managers and investors on current hedge fund reporting practices. In analyzing the spectrum of opinions, the authors identify critical points of conflict between investors and product providers. They find that investors are especially dissatisfied with the quality of information on liquidity and operational risk exposure.

The ability to understand the fundamental properties of various investment strategies lies at the heart of investing in various alternative assets. Academic and practitioner research has presented strong evidence in support of the addition of commodity futures contracts to a diversified stock portfolio to lower the risk of the overall rate of return. In the third article, "Stock Market and Agricultural Futures Diversification: An International Perspective," Kamal Smimou augments the potential for diversification by considering the use of foreign agricultural futures contracts. In the fourth article "Exit Strategies of Buyout Investments: An Empirical Analysis," Daniel Schmidt, Sascha Steffen, and Franziska Szabó examine a different type of alternative investment. Although buyout investments represent a considerable proportion of private equity volume, little research has been done on the exit strategies of buyout

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investments. Since exiting enables the realization of returns and is thus the most important factor for private equity investors, it is important to understand the motivation behind and the determinants influencing this decision. They analyze three main routes for exiting buyout investments: initial public offerings (IPOs), sales, and write-offs, using a unique data set for U.S. and European buyout transactions. The results strongly support the view that private equity investors write-off investments that turn out to be non-performing early, showing their ability to filter out bad investments.

Effective realization of the benefits of risk diversification depends on one's understanding of the impact of the asset in question on the underlying risk characteristics of the portfolio. Collateralized debt obligations (CDOs) became very popular investment vehicles in recent years—until the financial crisis started unfolding in the summer of 2007. As evidenced by the recent crisis, there was a failure by market participants to understand the complex relationships between various risk drivers, such as correlations, and their impact on the creditworthiness of different tranches across a CDO capital structure. In the fifth article, "Can CDO Equity Be Short on Correlation?" Şenay Ağca and Saiyid Islam examine the impact of correlation on the value of a CDO equity tranche. By examining the impact of an increase in correlation among underlying assets on the value of a CDO equity tranche, they show that, contrary to general perception, CDO equity can be short on correlation. Specifically, when the underlying reference portfolio comprises high-quality assets (assets with low probability of default) or diverse assets (assets with low correlations), the upfront price of a CDO equity tranche can increase with correlation. The implication of these findings is that not all senior and equity tranche trade combinations provide effective correlation hedging. In fact, in some cases, this type of "hedge" might actually increase the correlation risk.

Often the solution to a particular problem is based on how one views that problem. In the final article "Dual Offerings of ETFs on the Same Stock Index: U.S. vs. Swiss ETFs," Nikolaos Milonas and Gerasimos Rompotis provide their perspectives on the trading of similar assets in different markets. According to the law of one price, two identical securities traded in different places at the same time should command the same price. This law applies not only on original securities but on any other synthetic, derivative, or portfolio of securities. In particular, with regard to multiple offerings of the same security this law further implies that the returns should be similar for all investors as long as differential transaction costs are not imposed. The authors examine characteristics of numerous pairs of U.S. and Swiss ETFs written on the same stock index. Their findings support the argument that dual or multiple offerings originated in countries with differences in institutional characteristics, in currencies, and in time zones are likely to differ.

Global and U.S. financial markets are undergoing continual change. How those changes affect current and future activity in alternative markets is of major interest to current and future readers. We are constantly reminded that the only constant in financial markets is change. We should be reminded, however, that change is required not only to meet a changing market environment but to create a financial environment where enhancing one's skills are required as well. Remember if it were simple, one could simply hire a monkey and feed it bananas.

Thomas Schneeweis
Editor