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Speculating on the meaning and source of speculation in asset markets has long been an interest of practitioners and academics alike. Speculation on speculation is especially vibrant during periods of high asset prices that result from the myriad misconceptions surrounding the definition of speculation and the role that speculators play in determining market prices. This special issue of *The Journal of Alternative Investments* focuses on various views of asset speculation and the impact of speculators in commodity futures markets.

One of the many "commonly held" beliefs is that speculators are often the direct source of financial distress. In the first article in this issue, the response of speculators to financial distress is considered. More specifically, in "The Role of Speculators During Times of Financial Distress," Naomi Boyd, Jeffrey Harris, and Arkadiusz Nowak consider one of the best-known and largest hedge fund failures in history—the 2006 failure of Amaranth Advisors, LLC. The authors use detailed, trader-level data to examine the role of speculators during times of financial distress—in this case, the failure of Amaranth. They find that speculators served as a stabilizing force during the period by maintaining or increasing long positions, even while prices fell. The authors develop two testable propositions regarding liquidation versus transfer of positions and conclude that the probability of transfer was more likely for distant contract expirations and for contracts more dominantly held by the distressed trader. The article also examines the role of speculators in providing liquidity and mitigating the effects of liquidity risk by evaluating the change in the number of traders, the size and time between trades, and a Herfindahl measure of speculative trader concentration during the crisis period.

While speculators play a valuable role in futures markets providing liquidity and aiding in price discovery, they can also be guilty of price manipulation, or as some say, "excessive speculation." The second section in this issue focuses on market manipulation by speculators. In "Squeeze Play: The Dynamics of the Manipulation End Game," Craig Pirrong considers one of the most significant regulatory concerns facing derivatives markets: the case of market manipulation by means of a corner, or "squeeze." There are many famous examples of squeezes dating back to the very origins of derivatives trading and extending to the present day. These manipulations distort prices by moving them away from the supply- and demand-driven equilibrium, which limits the effectiveness of the market as a venue for price discovery and effective hedging. Unfortunately, the dynamics of trading as a contract nears expiration have not been modeled extensively. As a result, the existing literature cannot capture many of the interesting actions and interactions observed during actual squeezes. This article fills that void by examining the effects of asymmetrical information on the trading strategies of large longs and shorts as a contract approaches expiration. It provides insight into the mechanism of real-world corners and squeezes and the associated price movements around expiration that are not driven by supply and demand.

In recent years, the growth of commodity index investment has led to concern about the increased volume of commodity trading related to new commodity indexes as one additional source of price volatility and the role of commodity speculators in creating or managing that volatility. The two articles in our section on commodity index investment address this issue. Dwight Sanders and Scott Irwin address the argument that index funds were responsible for a bubble in commodity futures prices in their article "The Impact of Index Funds in Commodity Futures Markets: A Systems Approach." The argument is based on the premise that the sheer size of index investment overwhelmed the normal functioning of these markets. The authors argue that an empirical linkage must be made between commodity index fund positions and prices, or there is no obvious mechanism by which a bubble can form. The authors' empirical analysis uses new data from the U.S. Commodity Futures Trading Commission (CFTC) contained in the "Disaggregated Commitments of Traders" (DCOT) report. Granger-style causality regressions provide no convincing evidence that positions held by swap dealers impact market returns. Surprisingly, the results do suggest that larger commodity index positions are associated with declining market volatility, although these results may be market specific. In the second article in this section, "Commodity Index Investing: Speculation or Diversification?" Hans Stoll and Robert Whaley also consider the impact of commodity index "speculators." They point out that a number of seemingly unrelated commodities experienced simultaneous price spikes in 2007 and 2008. Congress investigated the increase in prices and concluded that the price increases were attributable not to supply and demand fundamentals but rather excessive speculation in commodity index investing. In this article, the authors evaluate whether commodity index investing is a disruptive force in commodity futures markets. Using the CFTC's Commitments of Traders reports, the authors conclude that due to its passive, long-only nature, commodity index investing is not speculation. In addition, the authors conclude that commodity index flows, whether because of rolling over existing futures positions or establishing new ones, have little impact on futures prices.

In the perspectives section, the final two articles provide various views on speculation and the impact of speculators. In "Examining the Role of Financial Investors and Speculation in Oil Markets" by Denis Babusiaux, Axel Pierru, and Frédéric Lasserre, the cause of the 2008 oil-price hike is considered. While some economists have blamed the rise in oil prices on speculators, others claim that oil inventories did not increase sufficiently for speculation to be the cause of the run up in oil prices. This article presents these two apparently contradictory arguments and attempts to reconcile them by emphasizing the inertia of the world oil–demand response to price variations. The authors present a number of factors that help reconcile these beliefs, including incomplete oil inventory statistics, increased ground storage, the use of inventories for current production, and the impact of a "focal price" that is inconsistent with immediate market fundamentals. The final article, "Defining Speculation: The First Step toward a Rational Dialogue" by Edward Szado, addresses the definitions of speculation and excessive speculation. The author offers one perspective on how to properly define speculation and offers a broad view of how and why different understandings of the term have led to the debate as to how, and to what degree, to control the activities of speculators. Szado argues that the meaning attributed to a particular financial term can have a significant impact on the way one considers issues in the marketplace. For instance, the view of what constitutes speculation and its impact on market processes varies widely among academics, politicians, the media, and the general public. Academics generally view speculators as a group of individuals who trade primarily based on an individual asset's standalone, expected risk–reward trade-off. While acting in their own self-interest, these individuals also may aid the operational aspects of the entire financial or commodity markets by offering increased liquidity, which allows the markets to facilitate efficient hedging and price discovery. In contrast, in the public, mass media, and political arena, speculators are often considered less important or less noble than other market participants who trade financial futures or commodities only as an indirect (e.g., hedging) part of their ordinary business activities. However, the line between hedging and speculation can be gray at times. Whatever the separation, the primary concern is the degree to which either hedgers or speculators have direct influence on market prices above and beyond their primary market functions.

There is little doubt that financial markets and their various trading venues should be protected from market or price manipulation. However, many asset and trading markets would simply fail to function without the existence of speculators. In short, speculation does not mean manipulation, and market manipulation does not mean speculation. The place of risk takers, in contrast to hedgers, in the trading microstructure will continue to be a fruitful area of research and comment for academics, practitioners, and regulators. This special issue of *The Journal Alternative Investments* attempts to step back from the hype surrounding current market conditions in order to address some of the issues relating to speculation and its place in financial and commodity markets. Despite the issues analyzed above or their results, one can expect that, given the constant evolution of the markets, there is only one commodity that will never be in short supply—speculation on speculation.

We look forward to your comments as well as your ideas on other areas of concern for which *The Journal Alternative Investments* can provide real value. Despite controversy over the existence of speculation in financial and commodity markets, I hope that there is no speculation about the simple fact that for more than 12 years, *The Journal of Alternative Investments* has provided a view into the place of alternative investments in the global marketplace.

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Editor