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This is the first issue of *The Journal of Alternative Investment* that has not been edited by its founder, Dr. Thomas Schneeweis. It is a real honor to assume Tom's role in this journal and to become its second editor. Tom Schneeweis' contributions towards our understanding of alternative investments and his efforts to promote education among investment professionals are enormous and long lasting. He established this journal at a time when because of lack of rigorous academic and industry research in the alternative investment field, alternative assets were not well understood and, therefore, were not considered institutional quality investment products. He not only had the foresight to start this journal, but a few years later founded the Chartered Alternative Investment Analyst Association, which has grown into a global professional organization with over 6,500 members. The good news is that Tom will continue his association with this journal, as Editor Emeritus, and the CAIA Association, as a board member, going forward.

LIQUID ALTERNATIVES

This issue of JAI has five articles covering three important areas. The first two articles deal with the new and rapidly expanding world of liquid alternatives. With recent changes in U.S. regulations, alternative investments will become more available to retail investors, and these articles make significant contributions to our understanding of these investment products.

The first article, "Hedge Funds versus Hedged Mutual Funds: *An Examination of Equity Long/Short Funds,*" offers comparative analyses of equity long/short mutual funds and equity long/short hedge funds and indices. Its author, David McCarthy, first identifies a universe of liquid alternative mutual funds employing an equity long/short investment strategy similar to most equity long/short private hedge funds. He then provides a general profile of these mutual funds (e.g., size, start dates, sponsorship) before comparing their equity exposure and investment performance to that of private placement equity long/short hedge funds and indices. Based on the data analyzed, the article concludes that, as a group, diversified single-manager equity long/short mutual funds offer similar equity exposures and do not perform materially differently than comparable private placement hedge funds, at least as represented by leading hedge fund indices.

Equity portfolios containing open overlays share a number of properties with hedged equity strategies and therefore could be considered a form of liquid alternative product. In fact, a number of mutual funds that classify themselves as equity long/short use overlay strategies to manage their risk. In

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the second article, David P. Simon examines QQQ covered call strategies from January 2002 through January 2012 and finds that downside risk-adjusted returns are attractive both on an absolute basis and relative to those of long QQQ positions. In "Active QQQ Covered Call Strategies," he presents a framework that partitions covered call positions into delta neutral short call and long equity positions, which highlights the separability of decisions about delta neutral short option and long equity exposure within a broader class of short call strategies that includes covered calls. He then demonstrates that selling QQQ call options and buying QQQ shares on a delta neutral basis both without and with delta rebalancing offers attractive risk–reward tradeoffs. Finally, he constructs out-of-sample implied volatility fitted values and examines the performance of covered call and delta neutral short call strategies when estimates indicate that implied volatility is more overpriced than usual. These conditions improve the performance of covered call strategies as well as short delta neutral call strategies.

HEDGE FUNDS

This issue has two articles on hedge funds. As is well known, hedge fund databases suffer from various types of biases, which prevent researchers from gaining a complete picture of the industry and its performance. While the effects of many of these biases have been addressed, the delisting bias is much more difficult to control. In "The Delisting Bias in Hedge Fund Databases," Philippe Jorion and Christopher Schwarz use information from three hedge fund databases to provide direct estimates of this bias. Based on the fact that funds delisted in one database often continue to report returns to another, they estimate the delisting bias is at least 35 bps per annum. Their analysis also provides estimates of frequencies and average losses for different delisting reasons. The delisting bias largely explains the puzzling differences between the performance of the direct hedge fund investments and that implied by funds of hedge funds. The authors estimate that the performance of hedge fund indices should be adjusted downward by about 50 bps to account for the delisting bias.

Previous studies have applied return-based style methodology to hedge funds with several goals in mind. This approach can be used to create replication products, measure whether a manager has alpha, or to estimate a manager's exposure. The latter goal is particularly important when it comes to hedge funds because of their limited transparency. In the article "Exploring Limitations of Return-Based Exposure Estimation for Hedge Funds," Christian Frei and Paul Hughes propose a method to assess the limitations of such methods using the posterior Cramer-Rao bound (PCRB) concept. This PCRB methodology allows one to quantify the maximum achievable accuracy of exposure estimates without having to compare computed estimates to actual exposures. This is particularly useful in situations where exposure data are unavailable. The main determinants of the PCRB are shown to be the variance of the hedge fund exposures and the ratio of market variance to idiosyncratic error variance. To illustrate the application of the methodology, the authors provide five examples in which they compare the PCRB to the computed estimation error using real hedge fund data.

RISK MANAGEMENT

The final section of this issue is devoted to risk management. Value at risk (VaR) and its related risk measures have generated substantial controversy in academic as well as practitioner publications. By now, most investment professionals are familiar with the general arguments for and against using VaR. It may not be known as well that VaR can be calculated using various methodologies and each with its own strengths and weaknesses. In "Understanding the Estimation Risks of Value at Risk," Donald Chambers, Michael Kelly, and Qin Lu discuss estimation of VaR in the context of alternative investments. The diverse return distributions of alternative investments raise both opportunities and challenges for value at risk. The opportunities arise from the inadequacy of traditional risk measures such as volatility and beta to capture the risks of alternative investments. The challenges arise from the difficulty of estimating VaR when return distributions are not well understood and/or trading strategies are dynamic.

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