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The last year proved an especially volatile year for both traditional and alternative assets. This was especially true as to the wide divergence of performance even within generic asset classes. Within the equity area, large growth stocks performed well while value stocks lagged. Within the hedge fund area, hedge equity performed well while some market neutral strategies were generally flat. In the first article, "On Taking the 'Alternative' Route: The Risks, Rewards, and Performance Persistence of Hedge Funds," Vikas Agarwal and Narayan Y. Naik explore the historical performance of a wide range of hedge fund investment strategies as well as the potential portfolio benefits of various strategies to traditional stock and bond investors. Their results remind us that for investors with reasonable investment horizons, hedge fund strategies may provide a important part of a diversified portfolio.

Debates on the source of benefits and ways to measure investment benefits of unique alternative investment strategies, however, continue to exist. In the next series of articles, the various authors concentrate on one particular area of alternative investment, that is, convertible bonds and convertible bond hedging. In the second article, "Valuation and Performance of Convertible Bonds with Hedge Funds," Jay Jung reviews the number of theories and empirical results on convertible bond pricing and convertible bond and convertible hedge fund performance. Jung's results confirm the diversity of convertible bonds both in terms of theoretical research and empirical performance. One reason for the diversity of convertible bond performance is the uniqueness of individual markets and convertible bond structures. In the next article, "Japanese Reset Convertible Bonds and Other Issues in Convertible Bonds," Izzy Nelken reviews the unique format of Japanese Reset Converts. It is the special nature of a wide variety of convertible bonds that leads to the special benefits of active management especially in the hedge fund area. In the next article, "Convertible Securities Hedging: A Case Study," John M. Pagli, Jr. offers a "case study" in the actual management of a convertible bond hedge program.

Convertible bonds are only one of several unique areas of alternative investments. The following two articles take us into even more esoteric areas. In "Portfolio Applications for CBOT Catastrophic Insurance Spreads," Larry Langowski illustrates the potential benefits of the use of Catastrophic Insurance Spreads as

an addition to a traditional stock and bond portfolio. Given the non-economic drivers of CAT spread changes, results support the assumption of low correlation between CAT spread changes and stock and bond returns. Similarly, in the next article, “The Diversification Potential of Tropical Timber Plantation Investment Funds,” Bert Scholtens discusses the potential benefits of investing in the very unique industry of tropical timber (e.g., teak). In addition, he discusses the importance of individual country regulations and risk on the underlying returns to such an investment.

Not only do investors generally invest only in traditional assets, academics likewise have a tendency to concentrate only on traditional empirical and statistical formats. In our Academic Corner article, “Equity REITs and the January Effect,” Nancy O. Cromwell, H. Swint Friday, and James A. Yoder illustrate the use of stochastic dominance as a means of illustrating the benefits of investing in equity REITs. The methodology used here should be considered for a wide range of alternative investment strategies.

One of the most traditional of investment strategies remains systematic commodity trading advisors. In our Practitioner’s Corner article, “Systematic Commodity Trading Advisor Strategies,” Jerry Harris and Tom Basso offer their responses to series of questions as to the structure and benefits of their approaches to systematic commodity trading.

In the final three articles, Sam Y. Chung provides his quarterly review of books/articles of interest to the alternative investment community and Kristaps Lics continues his review of Web information of value to the alternative investment area. Given the continued movement toward greater use of the Web for information on hedge funds and managed futures, this issue’s Web summary concentrates on sources of research conduction on hedge funds and managed futures. As always, we appreciate your readership and we look forward to your comments and submissions.

Thomas Schneeweis
Editor