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Within the past year, private equity, real estate, and several strategies within the hedge fund area have experienced major shocks. For many the last several months have brought a dose of reality not only to traditional asset markets but to the alternative investment area as well.

Given recent volatility in performance in the alternative investment area, the first two articles offer readers a chance to review some of the basic findings on the use of hedge funds in individual and institutional investors' portfolios. In the first article, "The Benefits of Hedge Funds: Asset Allocation for the Institutional Investor," Thomas Schneeweis and George Martin review the academic and practitioner research on the performance of various hedge fund strategies as stand-alone investments and as part of traditional stock and bond portfolios. In this article evidence is presented on the actual drivers of return of the various strategies or how traditional style-based performance analysis and asset allocation frameworks (e.g., mean/variance return/risk optimization) can be used to determine the appropriate allocation to hedge funds. In the second article, "Hedge Funds: Economic Benefits and Practical Challenges," Jean-René Giraud, James R. Hedges, IV, and Ted Wright offer a practitioner's review of the potential benefits of hedge funds as well as the challenges that the industry faces in meeting future growth demands. These challenges focus on maintaining investors' ability to meet their risk and return goals and on insuring that the industry conducts itself in a way that the risks surrounding the use of hedge funds are controlled.

Another major challenge to investors is to understand the potential benefits and risks in hedge fund investment. One major issue in investors' understanding of the potential benefits of hedge funds and investments in general is a proper use of performance measures that track investment performance. While numerous articles have addressed the proper use of various performance measures, the Sharpe ratio (risk premia/standard deviation) remains a primary means by which investors determine relative performance. While a number of concerns exist over the use of the Sharpe ratio (e.g., its use as a stand-alone comparison when assets should be compared on

THE JOURNAL OF ALTERNATIVE INVESTMENTS

their marginal risk impact on investors' portfolios), of equal concern is the ability of investment managers to trade in a manner which ensures their outperformance in a "Sharpe ratio world." In this issue's third article, "How to Game Your Sharpe Ratio," Richard Spurgin describes a typical alternative investment structure that can induce an upward bias in the measurement of the Sharpe ratio. The objective of the article is to demonstrate how adding derivatives can appear to improve risk-adjusted return without actually doing so.

One way for investors to reduce their sensitivity to the simple use of summary performance measures is a better understanding of the actual source of the return process. In the fourth article, "Evaluating CDO Equity Tranches," Laurie Goodman and Phillip Millman detail the workings of a major alternative investment area, i.e., collateralized debt obligations. CDOs have grown to be an important part of the asset-backed securities market, accounting for some 15% of new issuance. In this article Goodman and Millman look at where CDO equity cash flows come from and how to evaluate them. They then do a brief review of relative attractiveness of equity cash flows backed by different collateral.

In the last four articles in this issue, we continue our regular sections which contain articles of interest regarding particular issues within the alternative investment area. In this issue's case study, the industry's response to current pricing and risk management issues is provided through a survey conducted by Capital Market Risk Advisors. Participants included hedge funds, funds of funds, mutual funds, and traditional money managers. The results of the survey are reported in this article. As indicated in other articles in this issue, how practitioners view performance measurement is of critical importance to how they present their strategies to investors. In this issue's Practitioner's Corner, "Portable Alpha: Managed Futures as a Source of Excess Return," Thomas Moller points out that traditional active equity investment has traditionally failed to provide "excess return" above a comparable benchmark. To those investors who wish to expose themselves to an investment strategy that has a low correlation to equity while permitting access through an overlay investment, commodity trading advisor investment may be a reasonable alternative.

One of the concerns over the use of commodity trading advisors is, of course, their volatility of return. Measuring return volatility remains a core issue not only in performance evaluation but also in trading an underlying strategy. In this issue's Academic's Corner, we again delve into the arcane but interesting. For those who desire a relatively straightforward approach to estimate volatility, the commonly used Parkinson method (based on the range of returns) provides one such means. However, as indicated in an earlier article in this issue, commonly used methods of return/risk or risk estimation themselves may contain sources of potential error. In "Variance Estimators Using the Parkinson Approach," Richard Spurgin addresses several of those concerns. Traders and investors may wish to use this article as an introduction to further their interest in alternative means to measure volatility.

THE JOURNAL OF ALTERNATIVE INVESTMENTS

For some individuals, daily risk and return estimation is of less interest than longer-term trading issues. While in past Trader's Corners we focused on responses to a series of questions on a particular trading strategy, in this issue we focus on a trading approach which is centered on "The Euro and Its Changeover Impact on Financial and Alternative Investments." Within the next several months, the euro will become the common currency for the European Union. As individuals are forced to "turn over" their domestic currencies for the common unit of transaction, the implications of such transfers on stock valuations may be significant. In this article, Edward Kerschner, Ian Harnett, and William Dinning discuss the potential impact of the euro conversion on various European equity investments as well as alternative investments (real estate, art, etc.).

This issue concludes with our quarterly book/article review and our review of several academic sites which are indicative of academic research on issues of interest to the alternative investment community. First we consider some of the issues related to the market impact of hedge fund trading in our review of a recent book, *Hedge Funds in Emerging Markets* by Gordon de Brouwer, and a recent academic article, "Measuring the Market Impact of Hedge Funds" by William Fung and David Hsieh, both of which address the issue of hedge funds directly impacting financial markets. In the final article on websites of interest to the alternative investment area, Kristaps Licis reminds us that academic courses on alternative investments often offer up-to-date and valuable sources of material on alternative investments. In this issue, Licis reports on several sources of academic course information in the area of private equity.

This is the first issue of *The Journal of Alternative Investments* since the tragic events of September 11. Certainly, personal as well as professional lives have been permanently altered. It is almost a truism that such events give all of us the impetus to think again about those who have helped us. Thanks to all for making *The Journal of Alternative Investments* a suitable venue to express quality academic and professional research and ideas in the alternative investment area.

As a final note, Noel Amenc has joined *The Journal of Alternative Investments* as an associate editor. Noel is a professor at Edhec in Nice, France, and is widely known in Europe as a central figure in the asset management and alternative investment industry. Noel will help the Journal enlarge its efforts in Europe. We thank Professor Amenc for agreeing to join the *The Journal of Alternative Investments* editorial board and to help make *The Journal of Alternative Investments* a truly international journal.

Again, we continue to look forward to your submissions. Submissions may be emailed to Schneeweis@som.umass.edu. Copies of submissions may also be e-mailed to JYau@seattleu.edu or Noel.Amenc@edhec.edu

Thomas Schneeweis
Editor