THE JOURNAL OF ALTERNATIVE INVESTMENTS

VOLUME 4, NUMBER 4 SPRING 2002

This issue is the first of the year 2002. The past year witnessed a number of firsts both for traditional asset markets as well as for alternative investments. 2000 and 2001 were the first years since 1990 that the S&P 500 experienced a negative return for the year. Similarly, 2001 was the first year since several of the major index providers began providing data that several of the equity based hedge fund indices likewise had negative returns for the year. Similarly, other traditional alternatives such as private equity and commodity markets had annual returns that were less than their historical averages.

Are last year's returns an anomaly or will equity markets and hedge funds or private equity based on those return opportunities offer returns considerably below what was obtained for much of the 1980s and 1990s? In short, was 2001 a surprise or should we have known? For investors who are familiar with the number of articles that show that not all alternative investment strategies are "absolute return" strategies, the poor performance of 2001 came as no surprise. In the first article in this issue, "An Analysis of Hedge Fund Performance Using Loess Fit Regression," Laurent Favre and José-Antonio Galeano show that the classical linear correlation and the classical linear regression cannot be applied for some hedge fund strategies. They illustrate an approach (Loess fit regression) which offers a more suitable description of how various hedge fund strategies perform in various market environments.

The future of several alternative investment strategies including hedge funds, however, is a function not only of actual market performance but how strategies are perceived externally and managed internally. In the second article, "Fund of Hedge Funds: Rethinking Resource Requirements," Christopher Acito and F. Peter Fisher describe the current global fund of hedge funds (FOHF) market and analyze a series of factors that may drive future success for providers. The results in this article are based, in part, on a series of over 70 interviews conducted in the spring of 2001.

As pointed out above, however, strategy performance is also of prime importance. The year 2002 also brought about new structures of financial markets, especially in the area of currency management with the introduction of the euro. Despite the introduction

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of the euro (or due to its introduction), an analysis of currency strategies is the focus of the next two articles. In "Optimize Currency Carry Trades," Tao Huang compares the risk-return profile of simple currency carry trades with optimized carry trades by incorporating the volatility and correlation implied from the option market. In "Currency Market Trading Performance: A Case for Review," Henry Green and Kathryn Whinney take a longer time perspective and provide an assessment of general currency trading during the period of January 1982 to April 2001. It also serves to provide a framework for comparison of the performance of currency programs relative to the industry as a whole especially in the period from 1995 to date.

Performance measurement based on historical data, of course, is always fraught with problems. In the next article, "Performance Persistence for Managed Futures," B. Wade Brorsen and John Townsend examine whether some managed futures investments exhibit performance persistence in the sense that some have consistently higher returns than others. He finds that, consistent with other studies, only a small amount of performance persistence is found. Analysis of performance measurement is also dependent on proper strategy classification. In the next article, "Who's Long? Market-Neutral versus Long/Short Equity," Alexander M. Ineichen points out that proper classification of various hedge fund strategies has been a difficult exercise. Market-neutral and long/short equity are two styles which often overlap either in statistical tests or in the minds of managers and investors. In this article the similarities and the differences between the two strategies are discussed.

The future growth of alternative investments, however, requires not only constant analysis of existing strategies but also review of new strategies, instruments, or trading techniques. In this issue's "Case Study" Christine Brown and David Potaznik describe capital plus warrants (the third-party-issued derivative contract traded on the Australian Stock Exchange). Given current market conditions, a review of existing alternative investment products is also required. In this issue's "Practitioner's Corner," Karl Morawski offers his review of the private equity investment area. The following "Trader's Corner" presents a survey conducted on "Current Attitudes to Private Equity." Dee Power and Brian E. Hill pro-

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vide the results of their firm's survey on how private equity is now viewed given the current problems in the private equity area. A brief summary review of recent articles in the private equity area is also presented.

As in previous issues, a book (*Risk Budgeting: A New Approach to Investing*, Leslie Rahl, editor, Risk, 2000) and article (F.R. Edwards and M.O. Caglayan, "Hedge Fund Performance and Manager Skill," working paper, May 2001) are reviewed. Both the book and the article continue to illustrate that alternative investments and the means of managing the performance and risks of that investment continue to evolve. In this issue's Web Review, Sam Chung reviews a new website (www.wilmott.com) which is dedicated to furthering understanding of underlying derivative markets and trading strategies. One does not need reminding that derivatives remain a fundamental means by which alternative investments are managed.

As the new year begins, we plan to continue to expand our articles into a wider range of alternative investment strategies and to provide articles which provide both an academic orientation as well as a practitioner emphasis. We continue to look forward to your submissions and suggestions.

Thomas Schneeweis
Editor