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For many investors, the start of a new year offers the opportunity to revisit one's portfolio and the various asset classes that one can invest in. The past year has brought to many investors the knowledge that there are no alternative investments that are truly absolute return investments that can make money regardless of the market environment. However, the past year has also shown that many of the traditional alternative investment strategies have performed as anticipated given the markets that they trade in and the opportunities that are available to them. For instance, given the wide span in the performance of various hedge fund strategies, the first article in this issue, which is a continuation of the first article in the previous issue, concentrates on reviewing and retesting past research on market factors affecting hedge fund returns. The article is entitled "Understanding Hedge Fund Performance: Research Issues Revisited—Part II," by Thomas Schneeweis, Hossein Kazemi, and George Martin. The authors examine a number of market factors related to hedge fund performance. A simplified multi-factor model is used to capture the significance of market factors driving various hedge fund strategies, and the performance of various hedge fund strategies relative to these factors is presented. The market factors are also used to illustrate the relative performance of various hedge fund strategies conditional on extreme values of these market factors. Results show that the actual impact of various factors is dependent on the degree of changes in market factors. The empirical relationship between the market factors and various hedge fund strategies over time is explored as well. Results indicate that while factor relationships remain fairly constant for style pure hedge fund indices, they may vary dramatically for diversified fund of funds due to changes in strategy.

In the second article, "Asymmetric Returns and Sector Specialists," Alexander M. Ineichen tests the actual distributional properties of hedge fund returns. Returns from long-only exposure to equity and bond markets are fairly symmetrical. However, investors prefer asymmetrical returns to symmetrical returns as they prefer gains to losses and are averse to large drawdowns. Symmetric returns can be achieved through passive investment vehicles whereas asymmetrical returns require active risk management. This article examines asymmetric returns of long/short hedge fund managers who specialize in any one sector.

In the third article, "Time Variation in the Benefits of Managed Futures," Gerald R. Jensen, Robert R. Johnson, and Jeffrey M. Mercer provide new evidence on the return/risk benefits of adding managed futures to the investment set. Consistent with other research, their

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results indicate that with as little as 10% of the original portfolio reallocated to futures, portfolio return (risk) can be significantly increased (decreased). More importantly, the analysis shows that a simple indicator of the Fed's monetary policy stance can be used to reliably forecast, when, futures provide the most benefit.

While hedge fund and managed futures performance have both provided recent return and diversification benefits to traditional stock and bond portfolios, private equity has had mixed performance in recent years. In the fourth article, "Private Equity: A Portfolio Approach," Francis Milner and Ed Vos examine how private equity affects the performance of an investment portfolio that is primarily weighted in listed equities. Quarterly performance data across a 10-year period (1991-2001) for eight listed equity benchmarks is tested in relation to eight private equity fund categories. The results show mixed support for the belief that private equity funds have low correlations with listed equities.

The mixed performance of various alternative investment vehicles over the past several years has raised concern of the performance consistency of various strategies over time. In this issue's Academic's Corner, "Persistence in Hedge Fund Performance: The True Value of a Track Record," Harry Kat and Faye Menexe study the persistence and predictability of several statistical parameters of individual hedge fund returns. They find little evidence of persistence in mean returns but do find strong persistence in hedge funds' standard deviations and their correlation with the stock market. Persistence in skewness and kurtosis is low, but this could well be due to the relatively small size of the sample. Despite the observed persistence, the study also shows that in absolute terms hedge funds' risk profiles are not easily predicted from historical returns alone. The true value of a hedge fund's track record therefore appears not to lie in its use as a predictor of future performance and risk, but primarily in the insight that it provides into a fund's risk profile relative to that of other funds in the same strategy group.

Alternative investments include, not only hedge funds, CTAs, and private equity but also a wide range of other non-traditional assets including real estate and commodities such as timber. In this issue's Case Study, "Regional Investment Allocations in a Global Timber Market," Kurt Akers and Renato Staub describe an approach in which they evaluate the true risks and correlation measures for a number of global timber regions, leading to an example of how an appropriate allocation policy can be tailored for investor-specific requirements.

Performance measurement in any area of investment is always a subject of controversy. Academics and practitioners often have different views on how best to view performance. In this issue's Practitioner's Corner, "Performance Metrics for Hedge Funds," Les Gulko proposes to evaluate hedge funds in combination with a market portfolio. The combined portfolio, called the test portfolio, internalizes the hedge fund's return, volatility, and correlations. Next, the author introduces a risk-adjusted return that allows for one-to-one comparisons across all hedge funds embedded in test portfolios.

In this issue's book/article review section, *Managing Risk in Alternative Investment Strategies: Successful Investing in Hedge Funds and Managed Futures* and several articles covering a broad range of alternative investments such as hedge funds, commodities, real estate, and private equity are reviewed. In the Web Review section, information on frontier markets is reviewed.

As a final note, in February, the first Level 1 exam of the newly established CAIA (Chartered Alternative Investment Analyst) designation was given. The CAIA, as many of you may already know, was jointly founded by AIMA (Alternative Investment Management Association) and CISDM (Center for International Securities and Derivatives Markets), which is the editorial home of the journal. Approximately 80 individuals from over 10 different countries took the exam. The second exam will be held in July of this year and over 100 hundred individuals have signed up for Level 1. It is anticipated that many of those who passed Level 1 will be taking Level 2.

As in any new endeavor there are always fits and starts; however, it is our hope as evident by the success of this journal that the industry is now mature enough to present itself as a primary area of investment with its own global professional organizations, its own academic/practitioner journals, and its own education programs. As part of all of the aforementioned, I look forward to all your help and support in each endeavor. Without your support our past efforts will become just that, past efforts. As always, the journal continues to look forward to your ideas and your submissions.

Thomas Schneeweis
Editor