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Alternative investments are now more mainstream than ever before. As the journal enters its sixth year, it is likewise growing in size as well as circulation. Alternative investments cover not only hedge funds, managed futures, real estate, and private equity but also investments such as timber, art, real assets, and weather derivatives. This issue features articles on hedge funds, managed futures, real estate, real options, and private equity.

In the first article of this issue, "Tactical Style Allocation—A New Form of Market Neutral Strategy," Noël Amenc, Philippe Malaise, Lionel Martellini, and Daphne Sfeir document the benefits of a new form of market-neutral portfolio strategy that aims at delivering absolute returns over the full business cycle through systematic equity style timing decisions. Using a robust multi-factor recursive modeling approach, they find strong evidence of predictability in value and size style differentials. They use these econometric forecasts to generate systematic style timing allocation decisions. These portfolio decisions can be implemented using exchange traded funds on U.S. style indexes.

As pointed out above, the alternative investment universe includes not only hedge funds but also other asset classes such as commodities, managed futures, real estate, private equity, and real assets. In the second article of this issue, "Real Options Valuation of Australian Gold Mines and Mining Companies," David Colwell, Thomas Henker, John Ho, and Kingsley Fong use a model based on Brennan and Schwartz [1985] to empirically value Australian gold mines and mining companies. One difficulty with doing empirical research in this area is obtaining relevant and complete data, given the nature of real assets and the fact that these investments are typically private in nature. Using a data set supplied by Brook Hunt Mining and Metal Industry Consultants, UK covering the period 1992-1995, they find that the real options model is a useful tool for the description and valuation of operational flexibilities. However, the values of the embedded options are very sensitive to estimation errors in the input parameters of the model. While average and median closure option values are economically significant, the option values vary over a large range. The primary advantage of the data used is its consistency across different mines that cannot be matched by data sets derived from annual reports data.

In the third article, "The Linkage of REIT Income- and Price-Returns with Fundamental Economic Variables," David Downs, Hung-Gay Fung, Gary Patterson, and Jot Yau examine the relation between changes in macroeconomic variables and returns of real estate investment trusts (REITs). Previous studies show that stock prices quickly absorb news from changes in macroeconomic variables. Their study examines the components of REIT total returns, income- and price-returns, to gain a more detailed understanding of how macroeconomic variables affect the movement of these returns. Results using monthly data show that changes in macroeconomic variables have a significant impact on the volatility of the income portion of REIT returns and the news shocks from these variables impact income return volatility for more than one month in duration. These findings may assist REIT investors in their approaches to risk management.

In the fourth article, "Random Walk Behavior of CTA Returns," Greg Gregoriou and Fabrice Rouah examine whether CTA percent changes in NAVs follow random walks. Monthly data from January 1994 to December 2000 are tested for nonstationarity and random walk with drift, using the Augmented Dickey-Fuller test. All classifications (except the Diversified sub-index) are found to behave as random walks, but many of the series show evidence of a positive drift parameter, an indication that trends could be present in the series. The effectiveness of CTAs in enhancing risk-return characteristics of portfolios could be compromised when pure random walk behavior is identified.

In this issue's Academic's Corner, "Welcome to the Dark Side: Hedge Fund Attrition and Survivorship Bias Over the Period 1994-2001," Gaurav Amin and Harry Kat analyze hedge fund attrition over the period 1994-2001. Using data over the period 1994-2001, which includes Asian, Russian, and LTCM crises, they show that hedge funds exhibit a high level of attrition with the attrition rate showing a marked acceleration over time although fund of funds attrition is substantially lower but shows a similar acceleration. They conclude that the observed acceleration in attrition over the sample period cannot be explained by a change in the composition of the hedge fund universe or deteriorating overall performance. Their results also show that lack of size and lack of performance are the main factors behind hedge fund and fund of fund attrition. They study survivorship bias as well and conclude from the size of their estimates that investors should pay serious attention to survivorship bias issues when analyzing and investing in hedge funds. They note that not accounting for survivorship bias will cause investors to overestimate the returns and underestimate the risks from hedge funds, which will in turn lead to a significant over-allocation to this asset class.

The secondary market for private equity has evolved significantly in recent years. Investors in secondary funds, sellers seeking early liquidity on their investments, and existing and prospective portfolio managers have all sharpened their focus on this segment of the asset class. However, the very inefficiencies which make the secondary private equity market an attractive opportunity can conspire to produce uneconomic or unwise investment decisions for investors unfamiliar with its challenges, particularly in volatile financial markets and unpredictable geo-political environments. In this issue's Practitioner's Corner, "Opportunities and Challenges in Secondaries: Investing in the Secondary Market for Private Equity," Geoffrey Clark and Chris Kojima discuss these challenges and opportunities.

In this issue's Book/Article review section, *All About Hedge Funds: The Easy Way to Get Started,* 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, the official website of the Weather Risk Management Association is reviewed. The Weather Risk Management Association website provides an open forum for weather risk management industry participants to address issues, network among their peers, organize and announce WRMA's annual conference, and provide a gateway of information for the general public in this burgeoning field of risk management. The site also addresses matters related to weather risk management in Europe, Asia, and South America.

Lastly, in past issues we have expressed the importance of education in the area of alternative investments. There are a number of avenues of education in the area of alternative investments. The Center for International Securities and Derivative Markets (CISDM) of which I am director, is one of them. CISDM has recently joined with Alternative Investment Management Association (AIMA) in sponsoring a new educational endeavor, the Chartered Alternative Investment Analyst (CAIA) program, which was reviewed in the Winter 2002 issue of the journal. In future issues, the newly appointed director of the CAIA program, Craig Asche, will provide commentary on various educational avenues in the area of alternative investments. We encourage those who wish to contribute articles on alternative investment education to submit their efforts. As always, the journal continues to look forward to your ideas and submissions.

Thomas Schneeweis
Editor