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The first half of 2005 has already had its share of surprises. Returns in both traditional stock and bond markets as well as many hedge fund strategies remain relatively low. Concern has been expressed that we are now living through an economic period in which the underlying returns to many traditional and alternative investment strategies will be below their historical long-term averages. In this scenario, the ability of managers to allocate assets across strategies or to emphasize those strategies which may perform better in unique market environments is especially important. The first set of articles in the investment strategies section discuss issues related to market or strategy timing as well as to various means of strategy forecasting. In the first article, "Detecting Switching Strategies in Equity Hedge Funds Returns," Carol Alexander and Anca Dimitriu attempt to infer the type of switching strategies that equity hedge funds follow, if any, as well as their switching times by using reported monthly returns. Using a set of regime switching models, they examine the proportion of hedge funds that have switching strategies in place, the most popular instruments for switching strategies, and the relationships between switching times of different funds. They believe that the general methodology applied in this article may be useful to investors who wish to detect, from only their reported returns, whether and when a particular fund has been timing the market. In the second article, "Trading Style Analysis: A Quantitative Assessment of the Currency Industry," Amy Middleton offers insights on the trading styles utilized within the currency industry. She examines whether trend-following techniques still remain the dominant trading style for currency commodity trading advisors (CTAs) as well as the extent to which fundamental strategies are employed by currency overlay managers. She finds that a high proportion of currency overlay managers were using trend-following techniques. In the third article, "Overreaction and Trading Strategies in European iShares," David Simon and Joel Sternberg examine the forecasting power of German, U.K., and French iShares for the next-day returns of the underlying Morgan Stanley country equity indexes and assess whether European iShares overreact to developments after the close of European trading. Their findings

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indicate that although deviations of European iShare prices from net asset values (NAVs) at the close of U.S. trading have significant forecast power for next-day NAV returns, they overpredict. Their findings also indicate that deviations of closing iShare prices from their NAVs also lead to next-day iShare price reversals that average roughly 3/8 of the size of the deviations. Finally they demonstrate the profitability of trading rules that exploit the tendency of European iShares to overreact to late-day U.S. trading activity.

Of the various alternative investments, commodities (spot and futures) have had some of the best performance over recent periods. The risk management section features a review article of the literature on term structure models of commodity prices. In the article "Term Structure Models of Commodity Prices: A Review," Delphine Lautier describes the main contributions in the literature on term structure models of commodity prices. The first section is devoted to the theoretical analysis of the term structure. It confines itself primarily to the traditional theories of commodity prices and to their explanations of the relationship between spot and futures prices. The theories of normal backwardation and storage are found to be limited when the whole term structure is taken into account. Hence there is a need for a long-term extension of the analysis, and this premise constitutes the second section which is centered on term structure models of commodity prices. The presentation shows that these models differ on the nature and the number of factors used to describe uncertainty. Four different factors are generally used: the spot price, the convenience yield, the interest rate, and the long-term price. The third section reviews the main empirical results obtained with term structure models. First, simulations highlight the influence of the assumptions concerning the stochastic process retained for the state variables and the number of state variables. Then, the method usually employed for the estimation of the parameters is explained. Lastly, the models' performances, i.e., their ability to reproduce the term structure of commodity prices, are presented. The fourth section illustrates the two main applications of term structure models: hedging and valuation. The conclusion resumes the broad trends in the literature on commodity pricing during the 1990s and early 2000s, and proposes future directions for research.

In this issue we also present a case study section. In the first study, "Hedge Fund Crisis and Financial Contagion: Evidence from Long-Term Capital Management," John Halstead, Shantaram Hegde, and Linda Klein study the spillover effects of the collapse and bailout of Long-Term Capital Management (LTCM) on the stocks of a large sample of exposed and unexposed banks and brokerage houses to search for evidence of financial contagion. They find that the LTCM crisis led to widespread losses for financial institutions, including even regional and local banks with no known exposure to hedge funds. However, after controlling for characteristics that influence firms' vulnerability to an exogenous economic shock, they find that the unexposed banks and brokerage houses remained virtually unscathed by the crisis. They conclude that the market response to the financial turmoil at LTCM was rational, and the crisis only affected firms with exposure to hedge fund activities. In the second study, "Berkshire Hathaway, General Re, and Franchise Risk," Joseph Calandro and Robert Flynn illustrate how the modern value-investing framework can be employed to more effectively value insurance companies. By utilizing the case study of Berkshire Hathaway's 1998 purchase of General Reinsurance Corporation, Calandro and Flynn demonstrate how to more effectively construct a valuation, and specifically how to better consider the unique and intangible aspects of insurance company valuation. At approximately $22 billion General Re was Berkshire Hathaway's largest acquisition, and given the losses sustained post-buyout, it was also the firm's most troubled. Berkshire Hathaway's experience here is no mark against the unparalleled exper-

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tise of its chairman, investor Warren Buffett, but rather illustrates the unpredictability and volatility of insurance company valuation.

Compliance and regulatory action also remain at the center of the alternative investment arena, especially in the hedge fund and commodity trading advisor industries. In the article "Risk and the CFMA," Philip McBride Johnson examines several of the new risks that the Commodity Futures Modernization Act (CFMA) has created in its quest to eliminate "prescriptive" regulation and offers new trading alternatives to major market participants while liberalizing the operations for the organized exchanges as well.

In short, return management, risk management, and regulatory oversight remain major issues in the alternative investment areas. It seems that truth is an ever-changing constant. This volume marks the beginning of our eighth year. There have been many changes over those years as, I am sure, there will be over the next eight years. There are just too many people to thank for the success that we have achieved. I wish only to express my heartfelt thanks to all of my editors, reviewers, authors, readers. . . . Without your help and support none of what we have accomplished would have been possible. Of course, I continue to rely on your continued effort and support. Thanks again.

Thomas Schneeweis
Editor