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Editor's Letter

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This issue of JAI both provides a historical perspective on the evolution of alternative investments and examines the most recent developments in this area. I am grateful to Professor Gregory Brown for serving as the guest editor of this special issue.

Alternative investments have gone through substantial changes during the last two decades. Some of the “traditional” alternative assets, such as real estate, private equity, and hedge funds, have maintained most of their features but have nevertheless changed to reflect new realities of the market place. For instance, hedge funds have introduced new strategies that barely existed 20 years ago (e.g., activist funds, quant funds using machine learning and artificial intelligence, volatility strategies, etc.). Private equity funds have changed as well in response to investor demands for greater transparency with regard to valuations and fees. Another type of change that we have seen in the alternative investment area has been the introduction of new asset classes. For example, the assets under management (AUM) dedicated to infrastructure and other real assets and private debt funds were rather small 20 years ago but have now grown to represent a significant portion of the total AUM.

In his introductory essay, Gregory Brown discusses the changes that have taken place in the alternative investment industry over the past two decades. He highlights the forces behind the rapid growth of this asset class and discusses the articles that appear in the present issues.

In “Private Equity: *Rethinking the Neoclassical Axioms of Capital Markets*,” Eli Talmor examines the growth of private equity during the past 30 years. The article examines the economics of this asset class and points out that while private equity prospers, the number of listed firms is backsliding—experiencing a sharp decline of nearly 50% over the last 20 years in the United States. Talmor argues that the two contrasting trends are not independent phenomena.

Charles Cao, David Gempesaw, and Timothy Simin, in “The Decline of Informed Trading in the Equity and Options Markets,” investigate the information content of informed trading in the equity market and the options market. They find that informed equity trading and options trading are positively correlated in the time series but virtually uncorrelated cross-sectionally.

Shawn Munday, Wendy Hu, Tobias True, and Jian Zhang point out that although private credit funds have rapidly grown into a stand-alone asset class over the last decade, little is known about the aggregate performance of these funds. Their article, “Performance of Private

Credit Funds: *A First Look*,” provides a first look at absolute and relative performance, using the Burgiss database of 476 private credit funds with nearly \$480 billion in committed capital, including a subset of 155 direct lending funds.

In “Volatility as an Asset Class: *Holding VIX in a Portfolio*,” Jason Berkowitz and R. Jared DeLisle argue that portfolio managers have long sought the ability to increase diversification and hedge market downturns without sacrificing upside returns. The authors find that currently available VIX-related products are costly in their implementation and yield negative abnormal returns. However, if investors insist on investing in volatility assets, they find strategies using VIX futures offer the best Sharpe ratios.

“When Rationality Meets Passion: *On the Financial Performance of Collectibles*,” by Philippe Masset and Jean-Philippe Weisskopf, examines prior evidence and proposes an empirical study of the performance of passion investments in comparison to financial and real assets over the past 20 years. Over this period, classic cars and fine wines (but not visual art) display better returns than U.S. equity, fixed income, and real estate. Volatilities are, overall, low but increase once returns are adjusted for the inherent illiquidity in collectible markets. In a CAPM framework, only classic cars yield significant risk-adjusted returns with an annualized alpha of 5%.

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