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This issue is the first of our fifth volume. The past four years have brought a number of changes to the alternative investment area, as well as to *The Journal of Alternative Investments*. The Journal has grown in size and circulation, but the most important changes have been in the area of alternative investments itself. Hedge funds, as well as real estate, commodities, and private equity, are playing increasingly important roles in investors' portfolios. Not only have the asset classes themselves grown in size and sophistication, but also our ability to analyze their underlying risks and returns has grown likewise.

In the first article of this issue, "Risk Management for Hedge Fund Portfolios: A Comparative Analysis of Linear Rebalancing Strategies," Pavlo Krokhmal, Stanislav Uryasev, and Grigory Zrazhevsky apply formal risk management methodologies to optimization of a portfolio of hedge funds (fund of funds). They compare recently developed risk management methodologies, conditional value-at-risk and conditional drawdown-at-risk, with more established mean-absolute deviation, maximum loss, and market neutrality approaches. They investigate the performance of various risk constraints and conduct both in-sample and out-of-sample tests on the portfolio allocation algorithm. Their numerical experiments show that imposing risk constraints may improve the "real" performance of a portfolio rebalancing strategy in out-of-sample runs. They also show that it is beneficial to combine several types of risk constraints that control different sources of risk. In the second article, "The Difficulties of Measuring the Benefits of Hedge Funds," Laurent Favre and Andreas Signer also analyze the issue of measuring risk of portfolios that include hedge funds. They perform a critical evaluation of the use of the "mean-variance approach" for the determination of the benefits of allocations to hedge funds. The advantages of investing in hedge funds are often explained and demonstrated with reference to a shift in the efficient frontier of traditional portfolios. They note that the added value of hedge funds is almost always indicated in a mean-variance environment. By introducing value-at-risk analysis corrected for higher moments of distribution, they quantify estimated risk exposure and obtain corrected values with this new measure.

One of the major changes in the alternative investment area over the past four years has been the globalization of the financial

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markets and the use of these markets by hedge funds. Increasingly, hedge funds are looking to Asia, Europe, and emerging markets as potential markets for investment. The next four articles focus on various aspects of international markets. In the third article, "When Should Investors Trade in the European Futures Markets?," Massoud Mussavian explores when investors should trade. A badly executed trade can negatively impact the performance of even the best idea. This is a particularly acute problem for international investors who have to trade in multiple markets, each with slightly different trading hours and market structures. This article examines the intra-day volume, spreads, and volatility in the European futures markets. This analysis will help active European market investors develop better trading strategies. In the fourth article, "Stock Selection in the Eastern European Emerging Markets," Anthony Bercel explores the ability of value, expectational and sentimental factors to predict equity returns in Hungary, Poland, the Czech Republic, and Russia. After making adjustments to the data, he investigates the potential of changes in IBES earnings forecasts, price to book, market value, and price momentum to forecast returns. His univariate tests suggest that these variables do have forecasting value, but are more robust when combined together.

In the fifth article, "Alternative Investments in Japanese M&As: A Market Review and Some Empirical Evidence," Huong Ngo Higgins discusses the current M&A environment in Japan and presents evidence on the performance of Japanese bidders in the past decade. The findings indicate that the M&A market was relatively flat before 1999. However, after major legislative changes in 1999 to boost M&A growth in Japan, Japanese bidders for Japanese targets could earn abnormal returns. This article provides insight into the Japanese M&A market and helps M&A professionals assess gains from trading strategies in Japan. In the sixth article on global markets, "The Search for European Sector Exposure," Sandy Rattray addresses the belief that sectors are more diversified than countries and explain stock returns better. This belief is widely prevalent in Europe, where the majority of investors have been following a "sector approach" for several years. In the article, he reviews a range of instruments for sector-based allocation including portfolio trades, futures, swaps, and exchange-traded funds (ETFs).

The final articles offer a practitioner's view of issues and strategies within alternative asset markets. In the seventh article, "Case Study: The SGFI Futures Index," Lars Jaeger, Pietro Cittadini, and Michel Jacquemai conduct a case study on a passive investment strategy in futures markets. The risk-return characteristics of the strategy are discussed, and the enhancement through inclusion of the index in a traditional portfolio is presented. In "Symmetrical Performance Measures and Asymmetrical Trading Strategies: A Cautionary Example," Mark Anson demonstrates that the Sharpe ratio may not be a reliable performance measure, especially if the manager uses asymmetrical trading strategies. He shows that short volatility positions can increase the performance of a hedge fund manager, but expose the hedge fund to large downside risk should a volatil-

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ity event occur. If one were to use the Sharpe ratio as a performance measure, the manager would look like a star before the volatility event but would be unmasked after. In "Timber Investment," Kurt Akers answers several questions related to timber as an alternative investment vehicle. This issue's trader's forum provides readers with a clearer and more informed understanding of the potential for timber investment by capturing the return/risk trade-offs within the strategy.

The recently published *Handbook of Alternative Investments* (edited by Darrell R. Jobman, Wiley Finance, 2002) as well as several articles that focus on hedge fund portfolio management are reviewed in the book/article review section. Both the book and the articles continue to affirm that alternative asset classes and the means of managing their performance and risks are still evolving. In this issue's Web Review, Kristaps Licis reviews websites dedicated to understanding the area of timber investments. It is widely accepted that this area of alternative investments is still evolving with a broad range of potential investments.

As we enter our fifth year, we look forward to publishing articles covering a wider range of alternative investment strategies. We plan to continue to maintain the focus on articles that provide both academic orientation and practitioner emphasis. We also continue to look forward to your submissions and suggestions.

Thomas Schneeweis
Editor

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