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THE JOURNAL OF
INVESTING

VOLUME 14, NUMBER 1 SPRING 2005

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So, are markets efficient or aren't they? This issue has been debated among academics for years. In his commentary, Frankfurter tells us why he believes markets cannot be efficient without radical changes to finance, government, and politics. In our first article, Bathala, Ma, and Rao examine the investing behavior of institutional investors during the 1990s. Among their findings are the lack of preference for glamour or value stocks but the decided preference for momentum-driven investing during this period. Fredericks breaks emerging markets into two types: those that are globally competitive companies with large market capitalization and those that have yet to debut in the global marketplace. He then looks at the characteristics of each of these groups. Tokat and Wicas investigate the short-run considerations for the long-term international investor and conclude that investors must weigh their expectations for long-run risk-adjusted return against the regret of underperforming benchmarks or peer groups over shorter investment horizons.

Using a database of Spanish mutual funds, Castellanos and Alonso examine the characteristics of mutual funds within the same classifications. Their results show a large percentage of funds that are misclassified, substantiating their belief that the current classification system can be misleading to investors. Fjelstad, Fox, Paris, and Ruff discuss the question of what role the extended sectors of the U.S. bond market, specifically high-yield bonds and emerging market debt, should play in a well-diversified portfolio of a U.S.-based institutional investor. Scholtens compares the risk and return of social responsible investing with that of conventional investing using Dutch socially responsible funds as his example.

Gilkeson and Michelson examine the relationship between manager skill and risk budgeting and conclude that investors who wish to practice risk budgeting share a difficulty with all investors, namely identifying skilled specialty managers in advance. After concluding that most taxable investors and their investment managers probably misunderstand the true value of tax deferral and proper tax lot management, Horvitz and Wilcox offer practical suggestions for the taxable investor. Chiang, Kozhevnikov, and Wisen study the ranking properties of the Morningstar risk-adjusted rating for the decade ending 2001. We conclude the issue with the gold valuation theory constructed by Faugère and Van Erlach and based on viewing gold as a global real store of wealth.

As always, we hope you find the articles presented useful and thought-provoking. We welcome your comments and suggestions. You can email us at journals@investmentresearch.org.

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