THE JOURNAL OF INVESTING

VOLUME 14 NUMBER 2 SUMMER 2005

The properties of analysts' earnings forecasts have been the subject of much academic research. In our first article, Dunn and Nathan specifically examine the effect of the number of business segments followed by an individual analyst and the level of an individual analyst's industry diversification on that analyst's earnings forecast accuracy. They find that as the number of business segments followed by an analyst increases and as his level of industry diversification increases, his earnings forecast accuracy significantly declines.

In our next article, Statman examines hedged and unhedged portfolios, determining that their realized returns and risk were virtually identical and portfolio managers who are pressed to earn positive alphas while constructing good policy portfolios are likely to do neither right. Waring and Siegel believe that active management can be successful, and can be sold on its own merits without artificial arguments. They debunk some of the myths and stories often told in support of active management. This is followed by Feinman's discussion of the mispricing of assets and liabilities due to the improper handling of inflation in conventional valuation frameworks.

The so-called equity risk premium puzzle arises from an article by Mehra and Prescott [1985], which argued that the equity premium historically had been an order of magnitude larger than it should be based on asset pricing theory. Jones and Wilson examine the equity risk premium puzzles and argue that it is appropriate for investors to draw some straightforward, reasonable conclusions about this issue going forward that will directly affect their investing behavior. This is followed by Stewart's further development of the dynamic rebalancing strategy work of Perold and Sharpe. Kozhemiakin analyzes the assumption that similarly rated sovereign and corporate bonds are comparable in credit quality by examining Standard & Poor's and Moody's historical data on default frequencies, recovery rates, and ratings transition probabilities.

Next Feldman and Roy assess the investment value of the CBOE S&P 500 BuyWrite Index. Wadhwa discusses various aspects of the municipal market including size, breakdown of the investor client base, and issuance trends and examines general market behavior of municipals relative to taxable and how to best hedge cash bonds. We end this issue with a follow-up to an article published in *The Journal of Investing* in 1999. Goodwin reexamines historical returns on investment bought at the very top or bottom of the 1987 stock market and concludes that a statistically significant gap in performance will never be closed.

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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