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We begin our Summer 2007 issue with Bandopadhyaya and Grant's examination of hedge-fund demographics and hedge-fund performance. They observed that while individual investors still make up more than half of all hedge-fund shareholders, foundations, pension funds, and university endowments are increasing their stake in alternatives. They also concluded that the benefit of hedge funds as an asset class lies in risk management. Next, Jennings and Martin propose using factor-based models in SRI-screened investment universes to create socially enhanced indexing and alleviate some of the SRI shortcomings like style biases, excessive expenses, tracking error and an incomplete menu of screens. This is followed by Haslem, Baker and Smith who identify domestic equity mutual funds with high management fees and expense ratios and examine them for correlations between management fees and expense ratios to descriptive performance measures by Morningstar categories. Tokat and Wicas identify the factors that influence a rebalancing strategy and present a conceptual framework for developing rebalancing strategies that can accommodate changes in the financial market environment and in asset class characteristics, as well as account for an institution's unique risk tolerance and time horizon.

This is followed by Giot who discusses the unexpected capital gain as discussed in the literature on the equity risk premium and contrasts ex-ante measures of stock returns with actual total stock return. Best, Hodges and Yoder investigate the empirical relationship between the Sharpe ratio and the investment horizon for portfolios of small stocks, large stocks, and corporate bonds. Tokic discusses the need for prudent financial planning and wise political decision-making to reduce the severity of potential crisis and ensure the long run stability as baby-boomers begin to retire and the stocks market, bond prices and housing values that have all been rising begin to fall. Shankar assesses the relative merits of the methods of constructing the S&P and Russell indexes and their relative performance and concludes that the S&P indexes dominate the Russell indexes, particularly in the small-cap sector, where the S&P 600 index consistently outperforms the Russell 2000 index suggesting that index investors would benefit by choosing actively constructed index portfolios over passively constructed index portfolios, particularly in the small-cap sector.

Ghoul and Karam explore the similarities and differences between the components and characteristics of Islamic mutual funds, Christian mutual funds, both classified as Morally Responsible Investment (MRI) funds, and socially responsible investment (SRI) funds. Next Hamza, Kortas, L'Her and Roberge provide evidence that for the developed markets that were part of the MSCI EAFE index over the 1970–2004 period, an equally-weighted index outperforms market-cap and GDP-weighted indices. We conclude this issue with Schaub's examination of the long-term excess returns for ADRs listed on the NASDAQ from 1990 through 2002 for evidence of market timing effects. After breaking the sample down into emerging versus developed market issues he concluded that there is a huge market-timing difference in performance for emerging issues and a smaller, but significant, market-timing effect for developed market ADRs.

As always, we hope you find the articles presented useful and thought-provoking. You can e-mail comments or suggestions to us at journals@investmentresearch.org.

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