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We open our Spring issue with Frydenberg, Lindset and Westgaard who examine various statistical properties of several hedge fund style returns between 1994-2005. They question the suitability of using the Sharpe Ratio and instead proposed to use stochastic dominance. This is followed by Tromley who explores the influencing elements of PEG ratios and concludes that the best use of PEG is for within-industry screening, when firms are likely to have similar cost of capital and similar growth prospects. In response to the many studies that show that earnings forecasts of poor-performance firms contain large errors, Higgins demonstrates that inflexible costs are associated with large forecast errors during sales decline. Conover, Jensen, Johnson and Mercer investigate the efficacy of a sector rotation strategy that utilizes an easily observable signal based on monetary conditions. Next, Gilkeson and Michelson examine risk budgeting in the context of the certainty and uncertainty of the distribution of asset returns concluding that risk budgeting does not provide an appropriate analytical framework for measuring the realized performance of portfolios or portfolio managers relative to their benchmarks.

Historically, expansion and contraction of the average market P/E ratio has had a significant effect on U.S. equity returns. Weigands and Irons. In comparing two models of the market the conclude that as long as inflation and interest rates remain low, high market P/E ratios and the low expected return on equities that accompany high-P/E environments could persist for an extended period. This is followed by Qi and Zhao's investigation of the predictability and profitability of market breadth and the trin statistic. Bierman presents a decision-making strategy for investors faced with corporate share repurchase. Ratner and Klein investigate the use of gold as an investment asset concluding that the long-term portfolio benefits of holding gold are marginal at best. Although investors have been advised to consider alternative investments as a source of uncorrelated returns, Tomlinson believes we lack a framework within which to assess the 'values' content of such investments. He presents a preliminary framework to assess and rank the ethical content of traditional and non-traditional investments in the form of an ethical scoring matrix. We conclude this issue with Athavale, Bland and R. Kethley who paper we demonstrate financial applications of a quality control procedure, the Taguchi Loss Function (TLF), and describe the manner in which the TLF may provide qualitatively superior and meaningful financial information relative to the traditional "accept / reject" dichotomy.

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.

Best wishes to all,

Brian Bruce
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