Editorial

Journal of Asset Management (2008) **9**, 309. doi:10.1057/jam.2008.34

Extreme volatility flies around the markets and any comments on it will probably be meaningless by the time this comes to print. I was fortunate to be chairing the London Quant Group conference at Gonville and Caius College, Cambridge, in the second week of September, while bright stars imploded and black holes emerged.

The conference was excellent and I recommend it to the Journal's readers for both its social qualities and its intellectual rigour. It is hoped that it will be an annual event at this time each year in Cambridge. It must be said that not every talk was equally rigorous and the familiar inverse relationship between city position and quantitative rigour was noted. Another dimension of the conference was the speaker's attitude to the meltdown. It would be fair to say that the closer the speaker was to it, the more important it seemed to her. Junior members got along with presenting their models and results in a cheerful cocoon. Senior members obsessively ranted about impending doom. Possibly the truth lies somewhere in the middle.

Finding my mind filled with meltdown scenarios and resolutely trying not to talk to them, makes for a disjointed editorial. One side effect of extremely rapid change is

knowledge obsolescence. Words that may be of interest to financial historians could be investment banking, bonuses and short-selling, to name but three. Trying to imagine a world without investment banking makes one focus on what they bring to society in general, and financial markets in particular. I have no strong views here and can only report on contrary hypotheses.

Focusing on investment banking, one view might be that these are predatory organisations that exist solely to channel extreme profits to selected employees within the organisation. These profits are derived by skimming and front-running society's savings decisions. Another view might be that they act as financial intermediaries, reducing agent search costs and creating wealth through the expansion of agents' opportunity sets. These contrasting views get at the core question which is whether investment banking is a productive activity creating wealth, or purely a tax on existing wealth. One suspects that the long-run survival of the investment banking sector will be determined by the truthful answer.

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Editor