Editorial

Journal of Asset Management (2015) **16**, 221–222. doi:10.1057/jam.2015.21

We are proud at the *Journal of Asset Management* to have this first inaugural derivatives and hedge fund issue. As the journal moves into this special and popular area we have selected key papers for this issue. The following articles represent developments in the area of derivatives and hedge funds while adding to the existing body of knowledge.

In the first article, Heude and Yousfi propose a method of rendering options markets more liquid by suggesting a general appraisal technique of the closed-form solution of the Gray and Whaley (GR) (1999) formula to price put options with a readjustment feature. Heude and Yousfi tweak the GR model and switch the reset option with at-the-money options by changing the exercise price and then use a CRR binomial approach developed by Cox (1979). The authors suggest that the GR condition may provide an answer by finding a solution to the issues of liquidity as observed in their previous article using long-term option deep out-of-the money or deep in-the-money options.

In the second article, the author (Greg Orosi) offers a theoretical structure to price derivatives, because of the mispricing of options from the Black-Scholes formula. Basing his work on Henderson *et al* (2007) he develops a closed-form expression for European call options written on defaultable assets which could potentially offer a solution to the problems of liquidity using long-term options which was examined in their earlier research.

In the third article, Rostan, Rostan and Racicot explore an improved variance-reduction technic for the pricing of double barrier options in discrete time. They rely on Monte Carlo (MC) to implement their approach and show that the speed of MC simulations is increased significantly. They use this new simulation method for the pricing of Up-and-In-Down-and-In, Up-and-Out-Down-and-Out European call and put options and show that, in comparison to other methods frequently used in practice, their approach is the most efficient.

In the final article Wilkens, Yao and Oehler offer a two level benchmarking approach using peer group analysis to assess hedge fund performance. Using orthogonalization they demonstrate this technique is able to capture much more commonalities in hedge fund returns when compared with the standard methodologies of using exogenous factors only. Their new approach applied to hedge funds shows that hedge fund alphas are altered significantly and can isolate the managers that have outperformed their peers. The authors further believe their technique is superior as trying to assess relative performance of hedge funds using exogenous factors on a stand-alone basis cannot capture all commonalities and strategies of different funds. They develop the idea of peer group benchmarks proposed by Hunter *et al* (2014) who appraise mutual fund performance and demonstrate that two-level peer group benchmarks can be considered as an effective method to evade the 'missing factors' and 'commonality' problem when

attempting to evaluate hedge fund performance.

We expect next year for our second special issue to address the latest topics money managers and academics often encounter and deal with. We thank all

authors for their submissions in making the first issue a success.

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