Editorial

It is interesting to note the extent to which certain aspects of academic finance have come to be used by finance practitioners. Take, for example, the notions of utility and risk aversion. For years, practitioner interest in utility theory merely focused on quadratic utility, while risk aversion meant the trade-off between risk and return on the mean-variance frontier. This whole area has undergone a number of changes; institutional investors now look at quite complex utility models to express their preferences for asset allocation over different time horizons. I hope to persuade a leader in the field to present some work on this area to the Journal in the future.

Furthermore, there has been a rise in the importance of high net worth

individuals and their key role as providers of investment in the hedge fund sector, among other areas. This, in turn, has led to a great deal of research on individual risk attitudes, rather than institutional risk attitudes. Interesting work is being done by psychologists and financial economists in trying to piece together a 'risk map', to help understand what constitute the key drivers in individual asset allocation. These methods should help us understand the nature of financial decision-making; moreover, they incorporate more sophisticated notions of risk aversion, as well as many of the ideas of behavioural finance.

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Editor