Editorial

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I have been reading a number of hedge fund surveys recently, and they provide interesting insights into pre- and post-crisis reactions by financial professionals. The popular press will record examples of lack of repentance in this sector, and indeed in the financial sector more generally. Should there be any repentance, and, if yes, how much?

It is not clear to me even after reading a number of these surveys that we can isolate exactly who is planning to do what. Most institutions plan to increase their risk management, some plan to increase their research. However, most reports seem to agree that investments in alternatives are likely to go up in the future rather than go down. This is good news for readers of *JDHF*, but may be based on desire rather than firm historical evidence. I shall be discussing the nature of what this evidence needs to be in the rest of the editorial. The difficult questions are still based on the idea that many strategies are capacity constrained and that capacity remains very difficult to measure.

Parts of the difficulties are simply because much of what the hedge fund sector does has not been done for very long. We simply do not have much historical data. One could of course construct artificial series based on replicating indices in the manner of recent hedge fund research. In some sense this is not helpful as what we really want is a pair of variables, namely the relative proportion of the market invested in a particular strategy and the returns to that strategy. I would argue that this is impossible to reconstruct.

Life is much easier in equity space; I have seen convincing demonstrations that the returns for certain behavioural strategies relative to an equity index return have not been all that different from a half dozen or so other times in the last 100 years. In other words, the last 2 years have been bad but not uniquely bad. We may need to have to wait another 80 years to make the same demonstrations for hedge funds.

Turning to this issue, we have made it a thematic, or special issue, on long-short hedge fund research. There is surprisingly little written on this topic, either because many writers feel it is proprietary or because the sector has such clever people that they do not bother to write anything down. The first three papers all contribute to this area; I have always thought that with respect to hedge fund mathematics, a clear statement of what may be obvious to some, but possibly not their clients, will make the whole asset class more attractive to a wider group of investors.

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Editor