Editorial

Each time I write an Editorial for the *Journal of Asset Management*, there seems to be a new crisis overwhelming the industry. Whether crises are now a continuous event, or something that could be forecast by my editorial manifestation and put into a risk system remains to be seen. The current regulatory focus is now on market-timing, and I offer a few thoughts on what market-timing may be considered, and where a dividing line may be drawn, between what should be acceptable or not. Whether this dividing line is in accordance with current practice by regulators I do not know.

Market-timing as discussed in academic finance refers to the ability to forecast the future returns of an index. Whilst the usual tiresome efficiency arguments claim it cannot be done, early work by Merton and others provides tools as to how one should be able to measure this. The reason one may be able to do this is based on superior skill and better information. However, in no sense does one know the prices at the end of the day, so to speak, before the end of the day; one only has better forecasts.

Now, some of the versions of market-timing currently under investigation involve knowing the end of day price before the end of the day, and being allowed to trade before the end of the day. This seems, to me at least, to be akin to robbery. However, other versions under investigation involve superior information, and here the area is much less clear-cut. Consider, for example, large banks, who know from projected orders that a large volume of buys/sells will impact on an illiquid market by the end of the day. They may wish to use this information to forecast price/volatility movements, or to sell it to third parties to do so, albeit in an anonymised form. Here we cannot know what the price or the sign of returns will be with absolute certainty and this seems qualitatively different from the previous case.

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