
Editorial

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Biographical notes: Panos Xidonas is a Senior Research Associate at the Decision Support Systems Laboratory of the National Technical University of Athens, while he also acts as a Member of the Investment Committee at Attica Wealth Management. He holds a PhD in Financial Engineering and an MSc in Mathematical Finance, both obtained from the National Technical University of Athens. His fundamental scientific profile which reflects on Applied Physics is grounded on the relevant BSc degree achieved at the University of Athens. He possess substantial experience in conducting large scale theoretical and applied research, with focus on the fields of applied mathematics, investment management and information systems. He is a research and development team leader with strong professional credentials, specialised in the area of financial engineering analytics. Moreover, he has an extended consulting track record as a quantitative investment strategist, having delivered premium advice within the underlying industry. He is the Editor-in-Chief of the *International Journal of Portfolio Analysis & Management* and Associate Editor of the *International Journal of Multicriteria Decision Making*. He is the author of three books and numerous research papers in top-ranked scientific journals.

It is my great pleasure to announce the launch of the *International Journal of Portfolio Analysis and Management (IJPAM)* by Inderscience Publishers. I strongly consider that, when a new journal enters whichever field, no big words apply for the situation. Future will be the only unbiased estimator for its potential. For this reason, I immediately proceed to the description of the first sample of this journal's content. *IJPAM's* inaugural issue contains five extremely interesting papers, for which I profoundly believe that clearly capture the research quality levels that I have in my mind for this research vehicle.

The first paper by Keith Brown (University of Texas) and W. Van Harlow (Putnam Investments), answers the question: 'How good are the investment options provided by defined contribution plan sponsors?' They investigate the quality of the investment choices that sponsors of defined contribution plans offer to plan participants for their retirement portfolios. Using a unique database of over 30,000 plans, they calculate the performance of equity-oriented investment options that were included in plans compared to a sample of funds that were not. On average, plan options produce annualised risk-adjusted returns exceeding those of non-plan options by as much as 120 basis points, an outcome that is relatively insensitive to factor model specifications, time period, or investment style classification. This performance advantage is largely due to actively managed plan options; privately managed institutional funds do not appear to enjoy any incremental performance advantage relative to public mutual funds. They conclude that

plan sponsors do appear to possess superior selection skills when designing the set of investment options offered to plan participants.

In the next paper, David Disatnik (Tel Aviv University) and Simon Benninga (Tel Aviv University) attempt an approach to the mechanics of the two-block covariance matrix. The classical assumptions of the capital asset pricing model do not ensure obtaining a tangency (market) portfolio in which all the risky assets appear with positive proportions. Their paper gives an additional set of assumptions that ensure obtaining such a portfolio. The new set of assumptions mainly deals with the structure of the covariance matrix of the risky assets returns. The structure they suggest for the covariance matrix is of a two-block type. They derive analytically sufficient conditions for a matrix of this type to produce a long-only tangency portfolio (as well as a long-only global minimum variance portfolio).

The paper of Guofu Zhou (Washington University), Yingzi Zhu (Tsinghua University) and Sheng Qiang (Tsinghua University) focuses on asset allocation and technical analysis. They propose a simple approach for exploiting optimally the information provided by technical analysis. Their optimal asset allocation strategy is easy to apply in practice and is quite robust to model misspecifications. Empirically, they apply the strategy to the US stock market from January 1926 to March 2011. In addition, they also examine strategy's performances during the recent financial crisis as well as over all the bear markets of the past 85 years. They find that the proposed strategy outperforms the usual fixed asset allocation strategy substantially, and does extremely well during the recent financial crisis.

In the fourth paper, Wanfeng Yan (ETH Zurich), Reda Rebib (ETH Zurich), Ryan Woodard (ETH Zurich) and Didier Sornette (ETH Zurich and Swiss Finance Institute) lay emphasis on the detection of crashes and rebounds in major equity markets. Financial markets are well known for their dramatic dynamics and consequences that affect much of the world's population. Consequently, much research has aimed at understanding, identifying and forecasting crashes and rebounds in financial markets. The Johansen-Ledoit-Sornette (JLS) model provides an operational framework to understand and diagnose financial bubbles from rational expectations and was recently extended to negative bubbles and rebounds. Using the JLS model, they develop an alarm index based on an advanced pattern recognition method with the aim of detecting bubbles and performing forecasts of market crashes and rebounds. Testing their methodology on ten major global equity markets, they show quantitatively that their developed alarm performs much better than chance in forecasting market crashes and rebounds. Finally, they use the derived signal to develop elementary trading strategies that produce statistically better performances than a simple buy-and-hold strategy.

In the final paper of this issue, José Manuel Corcuera (Universitat de Barcelona), Florence Guillaume (KU Leuven), Dilip B. Madan (University of Maryland) and Wim Schoutens (KU Leuven) study the concept of implied liquidity towards stochastic liquidity modelling and liquidity trading. In this paper, the authors introduce the new concept of implied liquidity based on the recent developed two-way price theory (conic finance). Implied liquidity isolates and quantifies liquidity risk in financial markets. It is shown on real market option data on the major US indices how liquidity dried up in the troubled year end of 2008. These investigations open the door to stochastic liquidity modelling, liquidity derivatives and liquidity trading.