With the ex-post analysis of the financial crisis now well underway, it is perhaps not surprising that a number of articles in this final issue of JASSA for 2009 focus on the importance of empirical work in finance, particularly in relation to asset valuation and risk analysis. These are important issues currently under review by regulatory authorities around the world for their role in exacerbating the crisis. Other articles examine topical issues such as the development of appropriate strategies in value-based fundamental investment, mining project evaluation and the funding of health care for the aged.

In our first paper, David E. Allen Fin, Paul Gerrans, Abhay Kumar Singh and Robert Powell indicate that there are considerable gains to be made in the further application of quantile regressions to empirical work in finance. Using quantile regression on a sample of Australian stocks, they suggest that while ordinary least squares regression is not effective in capturing the extreme values or the adverse losses evident in return distributions, these are captured by quantile regressions.

In the second paper, Bruce Vanstone, Tobias Hahn and Gavin Finnie note that much published research, particularly from the United States, supports the use of fundamental analysis for value-based investment. However, their paper, which indicates how to test a well-documented US fundamental investment strategy, finds that these strategies do not translate well to our market.

Still on the theme of investment analysis, Robert Bianchi Fin examines the predictability of hedge fund index returns with forecasting variables that are stationary. Despite empirical research indicating that stock, bond and hedge fund returns can be predicted with conventional financial and economic variables, Bianchi’s results suggest that many financial and economic variables are not as effective at predicting hedge fund index returns.

The paper by Norman Sinclair Fin on forensic risk analysis examines a number of important portfolio risk management issues by providing an example of risk budgets and risk management control processes, using an illustrative portfolio during the turbulent period from January 2008 to August 2009. It reveals a high degree of risk concentration within a large stock portfolio, evidence of risk drift over the period, and significant breaches of initial portfolio and sector risk budgets. The paper also emphasises that effective portfolio risk management requires direct interaction between the technical and behavioural facets of a funds management organisation.

The next two articles address asset valuation of fixed assets such as in-situ plant and machinery and mining assets, and appropriate methods of mining project evaluation.

Wayne Lonergan SF Fin notes that it is not widely understood that the conceptual framework upon which capital market decisions are made, and within which financial reports are prepared, differ from each other and also differ from the approach taken by a large proportion of property and fixed asset valuers. He finds that the use of conventional
cost-based valuation techniques can significantly undervalue plant and machinery values in fixed asset intensive businesses, especially in mining related assets. There are also important potential flow-on consequences to other valuations where a top-down valuation methodology is used.

The paper by Mohsen Taheri, Mehdi Irannajad and Majid Ataee-pour indicates that both of the preferred methods of mining project evaluation (i.e. NPV and IRR) require the definition of an appropriate discount rate to establish investment criteria. They suggest that the conventional method of estimating the risk-adjusted discount rate (RADR) can complicate the decision-making process if a project does not have the same risk as its existing company. Their paper proposes some guidelines for selecting an appropriate RADR.

Despite the ageing population, there has been little research conducted to date on the issue of how people will pay specifically for their health and aged care later in life. Benedict Davies F Fin observes that with aged care costs difficult to estimate in advance, it is not easy for people to plan ahead. He says the research agenda in this area needs to be broadened, and he suggests that other alternatives to reverse mortgages should be examined to help people address these issues.

I note in my review that the key lesson from Barry Dunstan’s new book Investment Legends: The Wisdom that Leads to Wealth is that achieving legend status in investing is not about overnight success, or one big win. The book aptly demonstrates that what sets these overachievers apart is their brand of intellectual honesty, Vulcanised in unsentimental markets, that allows them to learn from their mistakes.

Once again, I am very pleased by the quality of the contributions in this issue. I am especially pleased to see the inclusion of a number of more quantitative articles, as this lends rigour to the analysis of key issues facing financial services practitioners, particularly in the current challenging environment within the industry. If you are inspired by any of the contributions in this issue, or simply have some research you want to share, I would strongly encourage you to consider submitting an article to JASSA in 2010. In that way you can help us advance our goal of deepening the industry’s understanding of the analytical and practical issues we face, and also contribute to the important debates occurring across the financial services industry. The guidelines for submission are available at www.finsia.com. Any comments on these or any previous articles in JASSA are also welcome at m.fahrer@finsia.com.

Finally, I would like to thank most sincerely our panel of eminent reviewers, both for the keen insights they have provided in their various areas of expertise and their important contribution to ensuring that JASSA continues to develop as a standard of excellence in applied finance within Australasia.