From the Chair of the Editorial Board

WITH INVESTMENT MARKETS, both in Australia and globally, continuing to be dominated by the effects of the global financial crisis, these are difficult times for funds managers, financial planners, investors and policy makers. In keeping with this, the first issue of JASSA for 2009 includes articles focusing on important issues such as investors’ risk tolerance and their ability to assess risk accurately, the transparency of financial accounts, the need for reform in certain financial management practices, and the predictability of the Australian equity markets.

Andrew McRobert SF Fin examines the demise of ABC Learning Centres and whether its financial statements provided sufficient warning signals to lenders and investors. He indicates that despite disclosure of ABC’s relentless growth, the accounts showed no material strengthening of its financial position and suggests more detailed analysis might have uncovered warning signs of what was to come.

With the current volatility in global equity markets, the outlook for Australian equities returns is clearly a significant issue for funds managers and investors. Graham Bornholt’s paper finds that there is strong evidence that returns in the Australian market are predictable from past US returns (two years earlier) and that Australian growth stocks are more influenced by the ‘two-year’ effect than are value stocks.

Richard Cumpston and Richard Denniss note that investors in climate-affected industries such as agriculture and tourism face large long-term risks. They examine the extent to which the Treasury’s October 2008 report on the economics of climate change mitigation and the subsequent Government White Paper on its carbon pollution reduction scheme provide guidance to investors in these climate-affected industries.

In another very topical paper, Lujer Santacruz examines the effect of the general economic mood on investor risk tolerance, and the implications for financial planning. His study indicates that the risk tolerance of Australian investors is not affected by general economic mood and, therefore, it is not necessary to adjust risk tolerance scores to account for changes in the investment climate. He indicates, however, that financial planners should recognise that herding behaviour could still result from investors being influenced by recent events.

Bob Officer SF Fin makes some interesting observations on residential housing and shared equity loans. While noting that most households rely on traditional interest-bearing debt, which can expose them to significant risks such as sudden changes in economic growth or interest rates, he says that such risks could be alleviated through a better mix of external debt and equity for households via shared equity loans. He also suggests that shared equity loans appear to be a good investment for the investment house sharing the equity and that, on the basis of limited data, they return significant abnormal returns or ‘alpha’ for their risk.
In the current period of high volatility, Hugh O’Reilly provides a timely discussion on optimising a Transition to Retirement Income Stream (TRIS). He demonstrates that, for individuals who have reached preservation age and who wish to maintain their working hours, adopting a TRIS optimised for their circumstances is beneficial to their superannuation balance.

Kevin Davis SF Fin notes that with the recent poor performance of many ASX-listed infrastructure funds, the financial management practices of these funds have faced considerable criticism. He argues, however, that some of the commonly criticised financial management practices of these funds are not inherently faulty (although open to abuse), and it would be unfortunate if a potentially valuable structure for the financing of infrastructure investments was discarded rather than reformed.

The paper by Norman Sinclair reveals that investors may be incorrectly assessing their investment risk. He notes that with a significant percentage of SMSF funds likely to face high levels of implementation risk, this could help create a ‘perfect storm’ in the Australian retirement savings pool. Potentially, these results have far-reaching implications for the SMSF sector, trustees and their advisers, as well as the ATO.

In his review of Niall Ferguson’s book, The ascent of money, a financial history of the world, Frank Olsson F Fin notes that the book’s key messages are that all bubbles burst and financial markets don’t lend themselves to reliable analysis and forecasting. This suggests that with tens of millions of investors driven by fear and greed, and billions of consumers influenced by current trends and expectations, scientific calculations cannot say much about the future.

Also, Russell Thomas SA Fin reviews Robert Shiller’s The subprime solution: how today’s global financial crisis happened, and what to do about it!, highlighting the author’s refreshingly unconventional approach to regulatory reform in the wake of the global financial crisis. He indicates that The subprime solution is to the housing bubble what Shiller’s earlier and popular work, Irrational Exuberance (2000), was to the 1990s equity markets: an astute interpretation of economic history and a controversial primer on how financial markets will benefit more from ‘democratization’ than from tighter regulation.

The Editorial Board is delighted to announce that JASSA has been accepted for inclusion in Social Science Citation Index (SSCI), a Thomson Reuters service. In conjunction with JASSA’s acceptance by EconLit, this offers JASSA authors significant global visibility and reach.

We are pleased with both the quality and the number of articles currently being submitted to JASSA for consideration. This augurs well for our ability to deliver an extremely high standard of publication in the future. We are very grateful for the support we are receiving both from academia and from financial services practitioners and look forward to your ongoing support.