ISSUE NO: 9 **THE CORTEX REPORT** **JUNE 2011**

Research Papers and Articles

This report lists selected research papers and articles published over the past 3 months, in academic journals, industry publications, as well as popular magazines and periodicals, that may be of interest to trustees and staff of large institutional funds in North America.

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AUTHOR(S)	TITLE	PUBLICATION	DATE
Asset Allocation			
Richard W. Kopcke and Zhenya Karamcheva	**Equity Returns in the Coming Decade**	**Center for Retirement Research at Boston College**	**March 2011**
	Summary or Abstract: The majority of retirement savings is invested in corporate equity, attracted by the historically high average returns offered by stocks. But substantial risk also accompanies investments in stocks, a risk that seems especially costly after the recent financial crisis. Not only did the value of equity plunge, but many forecasters also expect subpar returns from stocks over much of the coming decade as the economy recovers slowly from the recent recession. They point out that stocks in recent years have paid shareholders lean dividends, and now the sluggish recovery will limit the growth of corporations' earnings and stock prices. This brief discusses a broader way of viewing the prospect for equities. The return on stocks will depend on corporations' profitability. Companies' earnings have recovered strongly since the recent recession, and the valuation of those earnings reflected in current stock prices is near its historical average. If companies maintain their profitability, stocks are likely to pay returns that match their historical averages over the coming decade, even if the recovery of the economy is weaker than average.		
	Web link: http://crr.bc.edu/briefs/equity_returns_in_the_coming_decade.html		
James X. Xiong, and Thomas M. Idzorek	**The Impact of Skewness and Fat Tails on the Asset Allocation Decision**	**Financial Analysts Journal**	**March-April 2011**
	Summary or Abstract: The authors modeled the non-normal returns of multiple asset classes by using a multivariate truncated Lévy flight distribution and incorporating non-normal returns into the mean-conditional value at risk (M-CVaR) optimization framework. In a series of controlled optimizations, they found that both skewness and kurtosis affect the M-CVaR optimization and lead to substantially different allocations than do the traditional mean–variance optimizations. They also found that the M-CVaR optimization would have been beneficial during the 2008 financial crisis.		
	Web link: http://corporate.morningstar.com/ib/documents/MethodologyDocuments/IBBAssociates/ImpactSkewnessFatTailsAssetAllocationDecision.pdf		
Dan Ransenberg and Jonathan Hobbs	**Overcoming Credit Downgrades: Four Ways to Improve Your Liability Hedge**	**BlackRock, Inc.**	**April 2011**
	Summary or Abstract: Investors can refine their liability-driven strategy with four approaches to managing downgrades of corporate bonds. According to authors, together these four tactics could have increased a plan's funded ratio by 14% over the past 20 years. With solid investment foundations, these tactics should also benefit investors over the next 20 years and beyond.		
	Web link: https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_INS&source=&contentId=1111134436		
Lisa Goldberg and Stacy L. Cuffe	**Allocating Assets in Climates of Extreme Risk**	**MSCI**	**April 2011**
	Summary or Abstract: This article extends the standard paradigm for portfolio stress testing in two ways. First, it introduces a structured set of tools that enable investors to envision and administer extreme scenarios. It shows how to take account of historical and hypothetical covariance matrices in scenario construction, and it provides examples that demonstrate the substantial impact of doing so. In short, the risk climate can and should be incorporated in a stress test. Second, it provides a means to incorporate the output of a portfolio stress test directly into an investment decision, which ultimately boils down to a tradeoff between the competing objectives of minimizing risk and maximizing return. It achieves this with a scenario-constrained mean-variance optimization that can incorporate extreme risk and other non-Gaussian effects. The paper illustrates its methods in the context of an asset allocation problem. However, the methods are quite general, and can be applied to different types of investment processes.		
	Web link: http://www.msci.com/resources/research_papers/allocating_assets_in_climates_of_extreme_risk.html		

Author(s)	Title	Publication	Date
Sebastien Page and Rene Martel	**Asset Allocation for Pension Plans: Managing Risk in the Not-So-Long Run**	**PIMCO**	**April 2011**
	Summary or Abstract: The argument that risk assets reduce contributions must be re-examined. Most conventional risk models only consider "end-of-horizon" probabilities. Plan sponsors should focus on more meaningful "within-horizon" exposure.		
	Web link: http://www.pimco.com/EN/Insights/Pages/Asset-Allocation-for-Pension-Plans-Managing-Risk-in-the-Not-So-Long-Run.aspx#		
Bob Collie and John Osborn	**LDI's Role in Pension Plan Strategy: Risk and Return Considerations**	**Russell Investments**	**May 2011**
	Summary or Abstract: Liability-driven investing (LDI) has grown in popularity and is now widely recognized, from both the plan's viewpoint and that of the sponsoring corporation, as a way to reduce risk by aligning investment programs more closely with the liabilities they must eventually meet. This paper looks at the role played by LDI from a range of perspectives, both risk-focused and return-focused.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/LDIs_role_in_pension_plan_strategy_Risk_and_return_considerations_.pdf		
S. Ramu Thiagarajan and Barry Schachter	**Risk Parity: Rewards, Risks, and Research Opportunities**	**Journal of Investing**	**Spring 2011**
	Summary or Abstract: Mean–variance optimization has recently come under great criticism based on the poor performance experienced by asset managers during the global financial crisis. In response, an alternative approach, called risk parity, which proceeds by equalizing risk contributions, has garnered much interest. The authors summarize the work of a group of leading researchers on risk parity chosen for this special issue. They survey more generally what is known about this approach. Although risk parity has intuitive appeal and has performed well over some historical time periods, it is premature to claim the superiority of risk parity over other asset allocation approaches. The authors raise several conceptual and practical questions about risk parity that they think are worthy of additional research.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/joi.2011.20.1.079		
Ben Inker	**The Dangers of Risk Parity**	**Journal of Investing**	**Spring 2011**
	Summary or Abstract: Risk parity is a portfolio construction methodology that is extremely attractive if standard deviation is a good estimate of the risk of asset classes and if there is a wide variety of asset classes that are likely to offer fairly uncorrelated risk premia. In reality, however, standard deviation is a dangerously limited estimate of the true risk of an asset class and there may well be very few risk premia that are truly available to be exploited. Adding to the problem is the fact that bond yields today are at generational lows and sovereign debt loads are at extremely high levels, making the risk of significantly negative bond returns or even sovereign default much higher than history would suggest. The traditional 65/35 portfolio, while far from ideal, at least seems overwhelmingly likely to offer a decent premium over cash in the long run and should be able to survive either economic depression or sovereign default.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/joi.2011.20.1.090		

Author(s)	Title	Publication	Date
Denis Chaves, Jason Hsu, Feifei Li, and Omid Shakernia	**Risk Parity Portfolio vs. Other Asset Allocation Heuristic Portfolios**	**Journal of Investing**	**Spring 2011**
	Summary or Abstract: In this article, the authors conduct a horse race between representative risk parity portfolios and other asset allocation strategies, including equal weighting, minimum variance, mean–variance optimization, and the classic 60/40 equity/ bond portfolio. They find that the traditional risk parity portfolio construction does not consistently outperform (in terms of risk-adjusted return) equal weighting or a model pension fund portfolio anchored to the 60/40 equity/bond portfolio structure. However, it does significantly outperform such optimized allocation strategies as minimum variance and mean–variance efficient portfolios. Over the last 30 years, the Sharpe ratios of the risk parity and the equal-weighting portfolios have been much more stable across decade-long subperiods than either the 60/40 portfolio or the optimized portfolios. Although risk parity performs on par with equal weighting, it does provide better diversification in terms of risk allocation and thus warrants further consideration as an asset allocation strategy.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/joi.2011.20.1.108		
Edward Qian	**Risk Parity and Diversification**	**Journal of Investing**	**Spring 2011**
	Summary or Abstract: Traditional 60/40 asset allocation portfolios are not truly diversified because they have an unbalanced risk allocation to high-risk assets. As a result, their expected risk-adjusted returns are low. Risk parity is a new way to construct asset allocation portfolios based on the principle of risk diversification, achieving both higher risk-adjusted returns and higher total returns than traditional asset allocation approaches. The diversification benefits of risk parity portfolios also include balanced correlations to underlying asset classes and stronger downside protection against severe losses. Risk parity portfolios can also incorporate active views on risk-adjusted returns of different asset classes. All of these features make risk parity an attractive alternative to traditional asset allocation approaches.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/joi.2011.20.1.119		
Edgar E. Peters	**Balancing Asset Growth and Liability Hedging through Risk Parity**	**Journal of Investing**	**Spring 2011**
	Summary or Abstract: In this article, the author shows that risk parity strategies offer liability-hedging benefits in addition to exposure to growth assets. Risk parity portfolios are typically levered so that risks can be balanced across asset classes. The effect of doing so effectively levers low-risk assets like bonds and de-levers high-risk assets like stocks. The effective leverage of the bond component increases its duration, giving many risk parity portfolios durations similar to those of defined-benefit plans. This is not liability-directed investment, which targets a particular liability, but it does give liability-hedging properties, which other investment strategies typically do not offer. In addition, this study shows that periods of high and low volatility can affect the ability of a static mix of assets to effectively hedge liabilities.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/joi.2011.20.1.128		
Brian Jacobsen and Thomas Biwer	**The Determinants of the Importance of Asset Allocation**	**Journal of Portfolio Management**	**Spring 2011**
	Summary or Abstract: Jacobsen and Biwer provide a framework to help evaluate the cross-sectional importance of asset allocation. They propose a closed-form solution of the models posited by previous authors, for example, the well-known Ibbotson and Kaplan model.Not only can the framework be used to evaluate, on an ex post basis, the importance of asset allocation, but it can also be used to establish the “right” number of managers to use per asset class.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/jpm.2011.37.3.037		

Author(s)	Title	Publication	Date
Currency Management			
MSCI Index Research	**The Importance of Currency Returns and Currency Hedging**	**MSCI**	**April 2011**
	Summary or Abstract: There is a continuing trend for investors to reduce their home bias in equity allocation and increase the allocation to international equities. An important consideration in move towards global investing is the impact of currencies. An adverse movement in the exchange rate can dramatically change the performance of an international investment. This research bulletin reviews the performance of currencies, both in nominal and real terms, compare domestic and international equity returns and finally look at the impact of currency hedging.		
	Web link: http://www.msci.com/resources/research_papers/global_investing_the_importance_of_currency_returns_and_currency_hedging.html		
Timothy F. McCusker	**Managing Developed Country Currency Risk - A Proactive Approach**	**NEPC**	**April 2011**
	Summary or Abstract: Currencies are volatile. Most US institutional investors have traditionally ignored this volatility in their portfolios, leaving a meaningful risk exposure unhedged. This practice puts American institutional investors five to ten years behind UK, European, and Canadian investors, who have generally managed foreign-currency risk proactively through hedging (given significantly smaller home country market capitalizations). Despite increasing sophistication, as US institutional investors have embrace alternatives, utilized risk budgeting, and generally raised allocations to foreign investments, currency exposure has largely been ignored, resulting in a meaningful risk allocation without positive return expectations. A risk budgeting approach can identify sources of risk within a portfolio. When foreign asset classes and their underlying currency exposure are separated, risk budgeting reveals that developed foreign currencies are a volatile exposure within a diversified portfolio, adding risk without any increase in return expectations.		
	Web link: http://www.nepc.com/research/75-managing_developed_country_currency_risk-a_proactive_approach		
Defined Contribution & 401(k) Plans			
Daniel Gardner	**Going Long: Should the DC Industry Reconsider Participants' Bond Portfolios?**	**Russell Investments**	**March 2011**
	Summary or Abstract: "Retirement income" has become a hot topic in the U.S. defined contribution (DC) industry. Providing an income stream in retirement, in contrast to accumulating wealth for retirement, is rightfully becoming the primary goal of plan participants. While there has been a great deal of progress in this area, Russell has identified a gap in the existing solutions. One asset class in particular, while perhaps not ideal for accumulating wealth, is in fact very useful for targeting future consumption needs. This asset is long duration fixed income. Using long bonds in DC participant portfolios, particularly as a sleeve of a target date fund, would more effectively target future consumption needs than the intermediate- or short-duration bond portfolio that represent the status quo. Further, as an asset-only strategy, long bonds may be a potentially attractive "bridge" or alternative to the insured solutions that many sponsors have been hesitant to adopt. In this paper, Russell argues that plan sponsors and participants could benefit from considering the potential role of long bonds in DC portfolios.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/Going_long_executive_summary_DG_004505982.pdf		

AUTHOR(S)	**TITLE**	**PUBLICATION**	**DATE**
Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby	**A Role for Defined Contribution Plans in the Public Sector**	**Center for Retirement Research at Boston College**	**April 2011**
	Summary or Abstract: In the wake of the financial crisis, policymakers have been talking about shifting from defined benefit plans to defined contribution plans in the public sector. Three states – Georgia, Michigan, and Utah – have taken action, joining the 10 states that had introduced some form of defined contribution plans before 2008. Interestingly, these new plans are "hybrids" that combine elements of both defined benefit plans and defined contribution plans. Such an approach spreads the risks associated with the provision of retirement income between the employer and the employee. This brief provides an update on defined contribution initiatives in the public sector and then discusses whether the hybrids that have been introduced are the best way to combine the two plan types.		
	Web link: http://crr.bc.edu/briefs/a_role_for_defined_contribution_plans_in_the_public_sector.html		
Don Ezra	**A World Tour of Defined Contribution**	**Russell Investments**	**May 2011**
	Summary or Abstract: This speech was delivered - under the title "UK Defined Contribution Plans: Why So Little Progress" - by Don Ezra, Russell's Co-Chair, Global Consulting, to the annual investment conference of the National Association of Pension Funds (NAPF) in Edinburgh, Scotland on 11 March 2011. In it he explores the aspects of the defined contribution (DC) system that he considers best, wherever they are found: from the U.S. to Australia to Switzerland to the UK. It carries a positive message: that we all know what it takes to build an effective DC system, and we just need to go do it.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/A_world_tour_of_DC_Ezra_speech_.pdf		
Daniel Gardner and Sam Pittman	**Retirement Sustainability for Defined Contribution Plan Participants**	**Russell Investments**	**May 2011**
	Summary or Abstract: Defined benefit pensions have largely been replaced by defined contribution (DC) plans. So, to a greater extent than their parents' generation, retiring baby boomers will need to turn their nest eggs into streams of income to support their retirement. This paper looks at how DC plan sponsors can help retiring participants get the most from their nest eggs and avoid the dreaded scenario of running out of money in retirement.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/Retirement_sustainability_for_DC_plan_participants_.pdf		
Equity Management			
Dave Hintz, Matt Dmytryszyn, and Steve Murray	**Structuring a U.S. Equity Portfolio**	**Russell Investments**	**April 2011**
	Summary or Abstract: Equity serves as one of the key anchors for most investors' portfolios. Among traditional asset classes, equities offer investors the highest expected systematic return and serve as a primary component of aggressively allocated portfolios; they also provide diversification and return benefits within conservative portfolios. Equity markets are often delineated along geographical and market capitalization lines, with U.S. equity representing the largest geographical block – approximately 42% of total global equity market capitalization across national boundaries. While it is important to coordinate the allocations to U.S. and non-U.S. equities within a portfolio, the U.S. market is large and, for virtually all capitalization tiers, very liquid, with roughly four billion shares of company stocks in the Russell 1000® index trading each day.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/Structuring_a_US_equity_portfolio_.pdf		

AUTHOR(S)	TITLE	PUBLICATION	DATE
Finance & Portfolio Theory			
Meir Statman	**Efficient Markets in Crisis**	**Journal of Investment Management**	**Second Quarter 2011**
	Summary or Abstract: A belief that markets are efficient is blamed for instigating the crisis we are in and lulling us into complacency as the crisis was approaching. But the debate about the role of such belief in the crisis is unfocused for two reasons. First, a lack of a common definition of market efficiency precludes a common language. Second, efficient markets are conflated with free markets. The ambitious definition of efficient markets is their definition as rational markets, where security prices always equal intrinsic values. The modest definition of efficient markets is their definition as unbeatable markets. Bubbles cannot occur in rational markets but they can occur in unbeatable markets. The author argues that a belief in market efficiency cannot bear responsibility for our crisis since most investors do not believe that markets are either rational or unbeatable. Free markets are markets where government places little or no imprint on the financial behavior of individuals and organizations and on markets through regulations and direct intervention. Many advocates of free markets believe that such markets are also more efficient than markets which are not as free. But free markets are distinct from efficient markets. Highly regulated markets can be no less efficient in the sense of rational markets or unbeatable markets than lightly regulated markets. The author argues that a belief that free markets are always superior to regulated markets and lightly regulated markets are always superior to heavily regulated markets does bear some responsibility for our crisis. Regulations that would have limited the types of mortgages offered to homeowners would have helped stem the crisis or mitigate it. So would have limits on the degree of leverage employed by banks and homeowners alike. Yet not all regulations and government interventions bring unmitigated benefits. We have no precise measures by which we might distinguish real bubbles from illusory ones.		
	Web link: https://www.joim.com/abstract.asp?ArtID=400		
Fixed Income			
Robert Michele	**Uncertain? Unconstrained! The Benefits of Unconstrained, Global, Multi-Sector Investing**	**J.P. Morgan Asset Management**	**March 2011**
	Summary or Abstract: While a paradigm shift has been occurring in the fixed income markets over the course of the past several years, it has recently accelerated in the aftermath of the credit crisis. Although the U.S. debt market remains the largest, most liquid debt market in the world, it is at risk for becoming less dominant in the context of the total global debt markets (both emerging and developed). But, not only have global debt markets changed, so too have fixed income investors. Factors such as pension liabilities, cash flows, liquidity, diversification and alternative sources of return generation are driving new asset allocation modeling. As the landscape of fixed income investing has changed, re-examining the deployment of fixed income allocations is essential in ensuring investors keep pace with the changing paradigm.		
	Web link: http://www.jpmorgan.com/cm/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1158630197738&ssbinary=true		
Joel M. Paula	**The Case for Disaggregating Core Fixed Income**	**NEPC**	**April 2011**
	Summary or Abstract: Developments in fixed income markets over the past several years have intensified the need to re-examine core fixed income portfolios. A confluence of significant events — the subprime crisis in the summer of 2007, the failure of several important US financial institutions in 2008, and the subsequent Federal Government response — set the stage for a challenging market environment. As a result, some fixed income sectors experienced unprecedented and uncharacteristic volatility in 2008 and 2009, as investors faced poor active manager performance, the failure of diversification among bond markets, and severe illiquidity. This paper looks ahead to a new investment framework. In doing so, it questions traditional investment techniques and embrace an objectives-based approach to bond investing that moves away from a focus on benchmarks in favor of disaggregating the components of core bonds.		
	Web link: http://www.nepc.com/research/76-the_case_for_disaggregating_core_fixed_income		

AUTHOR(S)	TITLE	PUBLICATION	DATE
Hedge Funds			
Richard J. Harper	**Absolute Tracking: Moving Past Absolute Return for Hedge Fund Benchmarking**	**NEPC**	**April 2011**
	Summary or Abstract: Recent market volatility illustrates the shortcomings of absolute return benchmarks in evaluating hedge fund manager performance. By most metrics, absolute return benchmarks behave quite differently from actual hedge fund performance, and their usage obscures the distinction between manager skill and market exposure. This paper recommends an alternative means of benchmarking hedge fund manager performance.		
	Web link: http://www.nepc.com/research/77-absolute_tracking_moving_past_absolute_return_for_hedge_fund		
Rob Brown	**Long Short Hedge Funds, Where do They Belong?**	**Pensions & Investments**	**April 2011**
	Summary or Abstract: Many institutional investors are discussing the possible replacement of traditional long-only managers (in whole or in part) with long/short hedge funds. The logic given for such an action is that performance can only be improved by providing managers with the additional authority to also go short whenever they feel that it is in the best interests of their clients to do so. However, to develop a serious appreciation for the implications and rationale associated with the replacement of long-only with long/short, we must first understand what long/short hedge funds are and are not.		
	Web link: http://www.pionline.com/apps/pbcs.dll/cce?module=4&profile=1001		
Leola Ross	**Structuring a Hedge Fund Portfolio**	**Russell Investments**	**April 2011**
	Summary or Abstract: Hedge funds are alternative investment vehicles that use a wide range of active return strategies in both traditional and nontraditional asset classes. Hedge fund managers typically specialize in particular sets of strategies to take advantage of their market insights; some focus on a single asset class, and others apply their insights to moving into and out of asset classes and market segments. Returns from hedge fund investments derive primarily from the skills and knowledge of these active managers and typically are not well described by specific market betas. This paper tackles the following important questions and provides Russell's recommendations for building a hedge fund portfolio: ▪ Why are hedge funds attractive for an investor's portfolio? ▪ What does an investor potentially get from an outsourced fund-of-hedge-funds (FoHF)? ▪ What is involved in building a hedge fund portfolio? ▪ What strategies may be offered? ▪ How can investors put together a hedge fund program, given typical constraints?		
	Web link: http://www.russell.com/institutional/research_commentary/structuring_hedge_fund_portolio.asp		

AUTHOR(S)	TITLE	PUBLICATION	DATE
Inflation Protection			
Jon Ruff and Vince Childers	**Fighting the Next Battle: Redefining the Inflation-Protected Portfolio**	**Journal of Portfolio Management**	**Spring 2011**
	Summary or Abstract: The debate about the direction of future inflation and the damage it can cause to a portfolio has become increasingly fraught of late. The massive fiscal and monetary expansions deployed in response to the global financial crisis have prompted many investors to think about how vulnerable they are to an inflation shock, and thus how best to protect their portfolio in the event such a shock occurs. Many have rushed headlong into assets generally considered to be strong inflation antidotes, such as gold and inflation-protected bonds. Unfortunately, however, little consensus and much confusion exists about how best to protect against inflation risk. While many different assets could potentially provide some protection against inflation, their ability to do so as well as their prospective cost varies, particularly when measured in terms of the expected returns they provide compared to what they are replacing in the portfolio. Also, arbitrarily incorporating one or more of these assets could markedly shift the otherwise carefully constructed risk profile of the portfolio. Because investors' liabilities, risk tolerances, and portfolio objectives differ, a one-size-fits-all inflation protection formula that would be "right" for all investors is unlikely to be found. In this article, Ruff and Childers attempt to clear up some of the confusion surrounding these issues. They aim to provide insight into the tools available to protect against inflation risk and how an inflation-hedging strategy might be best implemented in light of the investor's broader investment objectives.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/jpm.2011.37.3.085		
Salvatore Bruno and Ludwig Chincarini	**A Multi-Asset Approach to Inflation Hedging for a U.S. Investor**	**Journal of Portfolio Management**	**Spring 2011**
	Summary or Abstract: The objective of Bruno and Chincarini is to explore and identify the inflation embedded in a broad range of asset classes beyond simplyTIPS, oil, gold, and real estate. Their analysis is conducted from the perspective of a U.S. investor. The authors find that an investor who is looking for a positive real return of 4.5% while minimizing the downside with respect to inflation will have an allocation that consists primarily of short-term bonds, longer-term bonds, some gold, some oil, and some emerging market equities. The weight of gold and oil together is less than 10% of the portfolio. Bruno and Chincarini also find that TIPS are only slightly effective for protecting against inflation, conditional on an investor using a group of asset classes. The out-of-sample performance of the real return optimizations is quite promising, providing an emulative inflation-protection strategy for U.S. investors.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/jpm.2011.37.3.102		
International Investment			
MSCI Research	**The Relative Strengths of Industry and Country Factors in Global Equity Markets**	**MSCI**	**May 2011**
	Summary or Abstract: This research paper investigates the relative strength of industry versus country effects in the global equity markets during the sample period 1994-2010. In particular, it examine three market segments: (a) the world market, (b) emerging markets, and (c) developed Europe. It employs a factor-based approach to construct portfolios that capture the "pure" effect of each industry or country, and measure the relative strength of the two effects. For the world market, it finds that industry and country effects are of comparable strength, although each dominates during different sub-periods. For emerging markets, it finds that countries have dominated industries during the entire sample period. In developed Europe, by contrast, it finds that industries have dominated countries since the introduction of the euro. The paper also investigates the size dependency of the relative strength of industry versus country effects. In particular, it finds that in the small-cap segment, industry effects become weaker, whereas country effects retain their full strength.		
	Web link: http://www.msci.com/resources/research_papers/the_relative_strengths_of_industry_and_country_factors_in_global_equity_markets.html		

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<tr><th>AUTHOR(S)</th><th>TITLE</th><th>PUBLICATION</th><th>DATE</th></tr>
<tr><td colspan="4">Investment Management & Portfolio Strategy</td></tr>
<tr><td rowspan="3">John C Bogle</td><td>The Clash of the Cultures</td><td>Journal of Portfolio Management</td><td>Spring 2011</td></tr>
<tr><td colspan="3">Summary or Abstract: During the recent era, the culture of short-term speculation has come to overwhelm the culture of long-term investment. The volume of transaction activity in the secondary financial markets has dwarfed the activity in the primary market where capital formation—once considered to be the principal economic mission of Wall Street—takes place. This change has been driven by many forces, including the institutionalization of stock ownership; the self-interested behavior of the financial agents who now hold 70% of all shares of U.S. stocks; the virtual disappearance of frictional trading costs (largely commissions and taxes); and the focus on the momentary illusion of stock prices rather than the eternal reality of intrinsic corporate values. The shift in the balance of mutual fund culture—from stewardship toward salesmanship—illustrates these trends and their negative impact on investors and on participation in corporate governance. Drawing on the timeless wisdom of Benjamin Graham, John Maynard Keynes, and Henry Kaufman, Bogle provides a range of recommendations that could likely foster the return to a financial system where the culture of speculation plays only a supporting role, with the starring role again played by the culture of investment.</td></tr>
<tr><td colspan="3">Web link: http://www.iijournals.com/doi/abs/10.3905/jpm.2011.37.3.014</td></tr>
<tr><td rowspan="3">Harry Markowitz, Robert Snigaroff and David Wroblewski</td><td>The Supply and Demand of Alpha</td><td>Journal of Investment Management</td><td>1st Quarter 2011</td></tr>
<tr><td colspan="3">Summary or Abstract: This paper analyzes the supply and demand for alpha by institutional investors and the money managers who serve them. A large database of products offered by such managers is used to estimate how the demand for such products increases as a function of achieved excess returns and how the ability to produce such excess returns declines with increased AUM (Assets Under Management). Static and dynamic (simulation) analyses are used to explore some implications of these estimates.</td></tr>
<tr><td colspan="3">Web link: https://www.joim.com/abstract.asp?ArtID=388</td></tr>
<tr><td colspan="4">Pension Finance & Funding</td></tr>
<tr><td rowspan="3">Paul C. Morgan and John W. Ehrhardt</td><td>2011 Pension Funding Study</td><td>Milliman</td><td>March 2011</td></tr>
<tr><td colspan="3">Summary or Abstract: The Milliman 100 companies contributed a record $59.4 billion to their defined benefit pension plans in 2010, producing an improvement in funded status of $12.4 billion for the year. The record cash contributions and the investment gains (12.8% actual returns for 2010 fiscal year vs. 8.0% expected returns) were offset by the 7.7% increase in liabilities generated by the decrease in discount rates (5.43% at year end 2010, down from 5.82% in 2009 and 6.36% in 2008) that are used to measure pension plan liabilities. This resulted in only a small improvement in funded ratio in 2010 to 83.9%, up from 81.7% in 2009 and 79.3% in 2008.</td></tr>
<tr><td colspan="3">Web link: http://www.evaluationassociates.com/research/pension-funding-study/</td></tr>
<tr><td rowspan="3">Andrew G. Biggs</td><td>Proposed GASB Rules Show Why Only Market Valuation Fully Captures Public Pension Liabilities</td><td>Financial Analysts Journal</td><td>March/April 2011</td></tr>
<tr><td colspan="3">Summary or Abstract: The Governmental Accounting Standards Board has released preliminary views on how public sector pension plans should value benefit liabilities. Because the GASB's proposals ignore government's contingent liability to pay plan benefits should assets fall short, they omit the full value of plan liabilities and contradict the GASB's own standard of "interperiod equity."</td></tr>
<tr><td colspan="3">Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v67.n2.1</td></tr>
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Author(s)	Title	Publication	Date
Benoît Labrosse and Kevin McLaughlin	**Borrowing to Fund Pension Debt**	**Mercer**	**April 2011**
	Summary or Abstract: Many plan sponsors of underfunded DB plans that have access to low-interest financing in the capital markets have the opportunity to consider additional borrowing to accelerate the funding of pension plan obligations. This option can be complex, and a careful analysis should be carried out to optimize a sponsor's sources and uses of capital. This article outlines a strategy to guide sponsors through the analysis and the decision-making process, in order to help them determine the advantages of issuing corporate debt to fund pension obligations and the resulting ramifications for investment policy.		
	Web link: http://www.mercer.com/articles/Borrowing_to_fund_pension_debt		
Pension Fund Management			
Northern Trust	**Integration of Assets and Liabilities in Investment Program Management**	**Northern Trust**	**March 2011**
	Summary or Abstract: Now more than ever, institutional investors are looking for ways to more efficiently manage their investment programs by reducing costs, controlling risk and managing funding concerns. After the dramatic market events of the last decade, defined benefit plan sponsors are facing stricter accounting and regulatory oversight. These challenges are forcing plan sponsors to reconsider how their investment programs are managed. This paper discusses the challenging landscape of pension plan investment program management and presents some ideas for overseeing pension plan management in this new era.		
	Web link: http://www.northerntrust.com/popups/popup_noprint.html?http://www-ac.northerntrust.com/content/media/attachment/data/reports/1103/document/integration_assets_liabilities_invpgm.pdf		
Pension Reform			
Barbara A. Butrica, Richard W. Johnson, and Karen E. Smith	**The Potential Impact of the Great Recession on Future Retirement Incomes**	**Center for Retirement Research at Boston College**	**March 2011**
	Summary or Abstract: This study examines the long-run effects of the Great Recession on the future retirement incomes of working-age individuals in 2008. It compares a baseline scenario that incorporates the historic and projected effects of high unemployment and lower wages from the recession with a no-recession scenario that assumes the recession had not occurred. The results show that the recession will reduce average annual incomes at age 70 by 4.3 percent, or $2,300 per person. This drop results almost entirely from the anemic wage growth that occurred during the recession, which the model assumes will permanently reduce future wages. Employment declines will have little effect on future aggregate retirement incomes because most workers remained employed during the recession and the losses that occurred are generally inconsequential when averaged over an entire career.		
	Web link: http://crr.bc.edu/working_papers/the_potential_impact_of_the_great_recession_on_future_retirement_incomes.html		
Brian Perlman, Kelly Kenneally and Ilana Boivie	**Pensions and Retirement Security 2011: A Roadmap for Policymakers**	**National Institute on Retirement Security**	**March 2011**
	Summary or Abstract: Public opinion research finds an overwhelming majority of Americans believe the nation's retirement infrastructure is crumbling and stock market volatility makes it impossible to predict retirement savings. The research also finds that Americans remain highly anxious about their ability to achieve a secure retirement, view retirement as simply surviving, and believe Washington is disconnected from Americans' retirement anxiety.		
	Web link: http://www.nirsonline.org/index.php?option=com_content&task=view&id=571&Itemid=48		

AUTHOR(S)	TITLE	PUBLICATION	DATE
Philip Coggan	**Fall Short: A Special Report on Pensions**	**The Economist**	**April 2011**
	Summary or Abstract: People in rich countries are living longer. Without big reforms they will not be able to retire in comfort.		
	Web link: http://www.economist.com/surveys/survey_paybarrier.cfm?issue=20110409&surveyCode=NA		
Edward N. Wolff	**Pensions in the 2000s: the Lost Decade?**	**National Bureau of Economic Research**	**April 2011**
	Summary or Abstract: One of the most dramatic changes in the retirement income system over the last three decades has been a decline in traditional defined benefit (DB) pension plans and a corresponding rise in defined contribution (DC) pensions. Have workers benefited from this change? Using data from the Survey of Consumer Finances, the author finds that after robust gains in the 1980s and 1990s, pension wealth experienced a marked slowdown in growth from 2001 to 2007. Projections to 2009 indicate no increase in pension wealth from 2001 to 2009.		
	Web link: http://www.nber.org/papers/w16991		
Ilana Boivie	**Who Killed the Private Sector DB Plan?**	**National Institute on Retirement Security**	**May 2011**
	Summary or Abstract: In recent decades, defined benefit pension coverage has declined for private sector workers. This issue brief finds that funding volatility is the primary culprit, not pension costs. It also identifies opportunities to reverse the trend.		
	Web link: http://www.nirsonline.org/index.php?option=com_content&task=view&id=549&Itemid=49		
Performance Measurement			
Renato Staub and Brian Singer	**Asset Allocation vs. Security Selection: Their Relative Importance**	**CFA Institute**	**Spring 2011**
	Summary or Abstract: Various researchers have investigated the importance of asset allocation versus security selection. Although the authors think this question is conceptually weak—because asset allocation and security selection have different missions—they address it to ensure appropriate quantitative treatment. They focus on feasibility rather than on what managers actually do. Hence, their approach is free of benchmark thinking and makes no assumptions regarding portfolio positions or potential constraints.		
	Web link: http://www.cfapubs.org/doi/pdf/10.2469/ipmn.v2011.n1.5		
Private Equity			
J. Christopher Kojima and Daniel J. Murphy	**Hitting the Curve Ball: Risk Management in Private Equity**	**Journal of Private Equity**	**Spring 2011**
	Summary or Abstract: Recent experience has reminded us that a private equity program cannot be viewed in isolation. What really matters is understanding just how the program might succeed or fail in contributing to broader, portfolio-wide investment objectives in the ways originally intended. A risk framework should distinguish benign regimes from volatile regimes, ideally ringing an alarm bell before the onset of trouble. Investors should first consider the places from which risks may emerge in a private equity program. Importantly, risk assessment should not be guided by the structure and labels of a particular fund—it must focus instead on underlying components and the ways they interact with each other, inside and outside of the private equity portfolio. The authors argue that active management should be a critical part of risk management in private equity. Simply approving or disapproving new additions to the portfolio is insufficient. Investors should consider changes that rebalance exposures and re-shape risks, working across all asset classes and availing themselves of mechanisms like the secondary market.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/jpe.2011.14.2.018		

Author(s)	Title	Publication	Date
Nathalie Gresch and Rico von Wyss	**Private Equity Funds of Funds vs. Funds: A Performance Comparison**	**Journal of Private Equity**	**Spring 2011**
	Summary or Abstract: Based on a comprehensive sample of 1,641 funds, this article investigates the performance of private equity funds of funds versus direct fund investments. On a risk-adjusted basis, funds of funds outperform the aggregated direct funds. When separated into categories such as buyout, venture, and fund of funds, buyout funds exhibit the most attractive risk–return profile. Analyzing how fund performance depends on macroeconomic variables, direct funds generate pro-cyclical returns: Returns increase with high public market performance and economic growth as well as declining corporate bond yields. For funds of funds, we cannot observe such a pattern.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/jpe.2011.14.2.043		
Public Sector Pension Plans			
Little Hoover Commission	**Public Pensions for Retirement Security**	**Little Hoover Commission**	**February 2011**
	Summary or Abstract: The Little Hoover Commission began its study of California's public pension systems in April 2010 to understand the scale of the problem and develop recommendations to control growing pension costs in state and local governments. Its report recommends a "hybrid" model that combines a lower defined-benefit pension formula with an employer-matched and risk-managed defined-contribution plan.		
	Web link: http://www.lhc.ca.gov/studies/204/report204.html		
Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby	**Can State and Local Pensions Muddle Through?**	**Center for Retirement Research at Boston College**	**March 2011**
	Summary or Abstract: The finances of state and local pension plans are headline news almost daily. Indeed, although these plans were moving toward prefunding their promised benefits, two financial crises in 10 years have thrown them seriously off course. Measured by the standards of the Government Accounting Standards Board, between 2008 and 2009 the ratio of assets to liabilities for our sample of 126 plans dropped from 84 percent to 79 percent. But this decline is only the beginning of the bad news that will emerge as the losses are spread over the next several years. Furthermore, the funded levels are closer to 50 percent if liabilities are discounted by a riskless rate, as recommended by economists and financial experts. What do these numbers imply for the future of these plans?		
	Web link: http://crr.bc.edu/briefs/can_state_and_local_pensions_muddle_through.html		
Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, Madeline Medenica, and Laura Quinby	**The Funding of State and Local Pensions in 2010**	**Center for Retirement Research at Boston College**	**May 2011**
	Summary or Abstract: The financial crisis of 2008-09 was a major setback for state and local pension plans, as plummeting asset values caused their funded ratios to drop significantly. The initial impact of the crisis on plan health was covered in a brief published last year. Since that time, several new developments have had a mixed effect on the current and future health of public plans. On the positive side, the stock market has risen significantly from the 2009 trough. And many states have introduced reforms to increase pension contributions and reduce future costs. On the negative side, recent growth in liabilities has outpaced growth in actuarial assets (because these values smooth market gains and losses over a five-year period). Moreover, the recession that accompanied the financial crisis has made it more difficult for states and localities to contribute the full amount of their required pension contribution. This brief explores how all of these developments affected the funded status of state and local plans in 2010.		
	Web link: http://crr.bc.edu/briefs/the_funding_of_state_and_local_pensions_in_2010.html		

Author(s)	Title	Publication	Date
John G. Kilgour	**California's Public Sector Pension Plans in Perspective**	**Compensation & Benefits Review**	**May/June 2011**
	Summary or Abstract: The recession of 2001 caused funding problems for public sector pension plans in California and throughout the United States. By 2007, they had largely recovered only to be devastated by the Great Recession that began in the fourth quarter of 2008, the effects of which are still with us. Matters have been exacerbated and complicated by the adoption of Governmental Accounting Standards Board's Statement 45, which requires that other post-employment benefits (OPEBs), mainly retiree health care obligations, be included in financial statements. Pension plans are prefunded. OPEBs are not. For this and other reasons, the two should be addressed separately. Although there are problems, California's public sector pension plans are in better shape than one would gather from what has been reported by the media. OPEBs are a larger and more difficult problem.		
	Web link: http://cbr.sagepub.com/content/43/3/153.abstract		
Robert E. Lee and Joseph Vonasek	**Police and Fire Pensions in Florida: A Historical Perspective and Cause for Future Concerns**	**Compensation & Benefits Review**	**May/June 2011**
	Summary or Abstract: Supplementary contributions to pension plans are predicted to increase for some Florida municipal governments because of the funding source used for police and fire plans. This article examines the history of local government pensions and focuses on Chapter 175 and 185 Pension Plans, which access funding through a tax on property insurance premiums. The notable legislative changes, Attorney General Opinions and court cases are also briefly assessed. This study research examines a sample of 32 pension funds in 20 Florida cities and indicates that the cost of providing these pensions is increasing because of legislative mandates for use of these revenues. This is evidenced by a historical decrease in the funding ratios of the funds of the cities sampled.		
	Web link: http://cbr.sagepub.com/content/43/3/164.abstract		
Real Assets			
Jay A. Yoder, Altius Associates	**Infrastructure Investing**	**Pensions & Investments**	**March 2011**
	Summary or Abstract: The need for massive infrastructure investment (measured in the trillions of dollars) is not in dispute. At the same time, governments at all levels throughout the developed world are simply unable to supply the capital required for public infrastructure because of large deficits and severe budgetary pressures. Increasingly, they are seeking to access private capital to build new assets, expand or renovate existing assets, and supply the provision of essential services. This long-term demand/supply imbalance should create strong fundamentals for infrastructure investments for many years to come.		
	Web link: http://www.pionline.com/assets/docs/CO73365328.PDF		
Robert D. Stock, Spruce Private Investors	**Inflation and Real Asset Performance**	**Pensions & Investments**	**March 2011**
	Summary or Abstract: The possibility of rising inflation has recently been a leading concern for many investors, especially as commodity prices continue to rise. The question then becomes how best to capture real asset performance in an inflationary environment.		
	Web link: http://www.pionline.com/assets/docs/CO73367328.PDF		

AUTHOR(S)	TITLE	PUBLICATION	DATE
Dave Esrig, Michael C. Hudgins and Luigi Cerreta Jr.	**Persistent Outperformance - Examining the Track Record of Large Properties**	**J.P. Morgan Asset Management**	**April 2011**
	Summary or Abstract: In this paper, the authors show that the 10% largest offices and apartments outperform their smaller counterparts by a wide margin and that the 50% largest regional malls do the same when compared with the balance of the retail sector. They also find this outperformance holds up to risk adjustments and to the claim that large assets outperform only because they are in major markets. And while it may seem that not having access to 10% of office and apartment buildings and one-half of all malls may have a small impact on performance relative to benchmark—it turns out that these large assets combine to account for more than one-third of the market weight of the entire benchmark. In sum, a zero allocation to large assets is a substantial underweight to a property category that the authors show has outperformed.		
	Web link: http://www.jpmorgan.com/cm/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1158630199663&ssbinary=true		
Lee Kayser, Mark Paris and Leola Ross	**Structuring a Commodities Portfolio**	**Russell Investments**	**April 2011**
	Summary or Abstract: In the last decade, commodities investing has gone from niche to common, from being perceived as risky and high stakes to being counted as an important element of diversification in reducing one's portfolio level volatility. The evolution of commodities investing has been driven largely by a maturation of the active investment community, the improvement in passive delivery of well-known benchmarks and increasing awareness on the investor side.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/Structuring_a_commodities_portfolio_.pdf		
Leola Ross and John Mancuso	**Structuring a Private Real Estate Portfolio**	**Russell Investments**	**April 2011**
	Summary or Abstract: Commercial real estate was first introduced to institutional investment portfolios in the 1970s to diversify risk and potentially enhance return. In the 40 years since, real estate as an asset class has evolved to become an integrated component of the broader capital markets and a truly global investment opportunity set that is a mainstay in investment portfolios of all types and sizes. With a multitude of options available to investors, real estate investments today can be tailored to specific portfolio goals and constraints.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/Structuring_a_private_real_estate_portfolio.pdf		
Adam Babson	**Structuring a Listed Infrastructure Portfolio**	**Russell Investments**	**May 2011**
	Summary or Abstract: As a real asset category, infrastructure offers risk, return and diversification characteristics distinct from those of other asset classes, and thus merits consideration for allocation in a diversified portfolio. Infrastructure investments feature steady cash flows derived from tangible, long-lived assets with monopolistic-like pricing power; many are regulated and may feature income linked directly to inflation. The noncompetitive position of the assets is driven by high barriers to entry, due to the considerable fixed costs required in development as well as a high degree of regulation. "Pure play" infrastructure assets—which include toll roads, regulated utilities, airports, seaports and cell towers—are essential to the fluid, effective functioning of societies, and accordingly feature highly inelastic demand patterns.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/Structuring_a_listed_infrastructure_portfolio_.pdf		

AUTHOR(S)	TITLE	PUBLICATION	DATE
RS Investments	**Institutional Real Asset Strategies Part II: Public vs. Private Equity**	**Pensions & Investments**	**Spring 2011**
	Summary or Abstract: Institutional investors employ real asset strategies for a number of reasons, including access to unique return streams, diversification benefits, and for inflation protection. Typically, allocations have been either via physical or derivative strategies or via private equity managers. Because commodities cannot create value in and of themselves, direct investments have been viewed primarily as a diversification tool and as an inflation hedge. Private equity strategies provide exposure to both long-term commodity price trends as well as unique return streams created by specific assets and management teams, but require investors to accept significant restrictions on liquidity. The institutional bias toward using private equity funds in the equity portion of real asset portfolios stems from the commonly held view that private equity strategies generate better returns than public equity strategies and, perhaps more importantly, that relative returns among public equity funds are mean-reverting whereas relative returns in private equity are not. This paper reviews the factors that drive long-term value creation in the natural resources sector. It then compares the performance of public equity and private equity strategies and discusses inefficiencies and the mean reversion of returns in both markets. It concludes by illustrating how the inclusion of an actively managed, value-oriented public equity strategy can complement existing allocations to private equity, improving the overall liquidity profile of a real asset strategy without compromising expected returns.		
	Web link: http://www.pionline.com/apps/pbcs.dll/cce?module=4&profile=1012		
Risk Management			
Bob Collie	**Correlations Have Fat Tails, Too**	**Russell Investments**	**April 2011**
	Summary or Abstract: The recent credit crisis revealed many systemic problems within the residential mortgage-backed securities marketplace. Some of the problems lie squarely with the lending industry, but investors, Wall Street and the U.S. Government also played major roles in creating the disaster. Many people have studied and reported on the lessons learned from the crisis; however, most of the major problems still exist today. This article will discuss some of the flaws that remain in the system and what investors should keep in mind going forward, as employment eventually improves and the housing markets eventually resurrect themselves. Conversely, economic factors that influence loan performance and recommendations for fixing failed policy are not within the scope of this article, and no claim is made that any lessons have been learned. Thus, the principle of caveat emptor remains alive and well.		
	Web link: http://www.russell.com/institutional/research_commentary/PDF/VP_Correlations_have_fat_tails_too_.pdf		
Bruce Curwood and Don Ezra	**How Defined Benefit Plan Sponsors Think about Risk Management**	**Russell Investments**	**May 2011**
	Summary or Abstract: This paper has its origins in an experimental workshop conducted at the 2011 Russell Institutional Summit held on April 30 - May 3, 2011. At the workshop, participants were divided into four groups, roughly by size, and were given four questions to ponder: 1. Your key risks: What risks are you most worried about? 2. Sound theory: Given a blank sheet of paper and a perfect world, design the ideal risk management system for your fund. 3. Your current practice: How much of this are you actually doing today? 4. Let's make it happen: What do you want to do next, to overcome the gap between #2 and #3? This paper provides an overview of their responses and insights from the authors.		
	Web link: http://www.russell.com/institutional/research_commentary/db_risk_management.asp		

AUTHOR(S)	TITLE	PUBLICATION	DATE
Structured Finance			
Bill Hunt	**Post-Crisis and the New World Order**	**Journal of Structured Finance**	**Spring 2011**
	Summary or Abstract: The recent credit crisis revealed many systemic problems within the residential mortgage-backed securities marketplace. Some of the problems lie squarely with the lending industry, but investors, Wall Street and the U.S. Government also played major roles in creating the disaster. Many people have studied and reported on the lessons learned from the crisis; however, most of the major problems still exist today. This article will discuss some of the flaws that remain in the system and what investors should keep in mind going forward, as employment eventually improves and the housing markets eventually resurrect themselves. Conversely, economic factors that influence loan performance and recommendations for fixing failed policy are not within the scope of this article, and no claim is made that any lessons have been learned. Thus, the principle of caveat emptor remains alive and well.		
	Web link: http://www.iijournals.com/doi/abs/10.3905/jsf.2011.17.1.055		
The Financial Crisis of 2008			
Viral V. Acharya, Thomas Cooley, Matthew Richardson, Richard Sylla and Ingo Walter	**The Dodd-Frank Wall Street Reform and Consumer Protection Act: Accomplishments and Limitations**	**Journal of Applied Corporate Finance**	**Winter 2011**
	Summary or Abstract: The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 is widely described as the most ambitious and far-reaching overhaul of financial regulation in the United States since the 1930s. The Act aims to put an end to the too-big-to-fail problem and is expected to alter the structure of financial markets in profound ways. This article provides an overall assessment of the Act in three different ways: first, in light of first economic principles, or how theory suggests we should regulate the financial sector, given the systemic risk externality each financial firm imposes on other firms and the rest of the economy; second, from a comparative perspective that views the proposed reforms in relation to those undertaken in the 1930s following the Great Depression; and, finally, in the form of an assessment of how the proposed reforms would have fared in preventing and dealing with the crisis of 2007–2009 had they been in place at the time. The article also highlights key areas that are left wholly or partly unaddressed by the Dodd-Frank Act—notably, the pricing of explicit and implicit government guarantees; dealing with inevitable opportunities for the financial sector to engage in regulatory arbitrage; and containing the systemic risk arising from collections of small institutions and markets such as money market funds and repo contracts.		
	Web link: http://onlinelibrary.wiley.com/doi/10.1111/j.1745-6622.2011.00313.x/abstract		
Richard Roll	**The Possible Misdiagnosis of a Crisis**	**Financial Analysts Journal**	**March/April 2011**
	Summary or Abstract: Most explanations of the 2007–08 financial crisis—including excessive leverage, subprime mortgages, exotic derivatives, reckless risk taking, and easy money that spawned a housing bubble—are inconsistent with elementary principles of finance. The author explains the inconsistencies and suggests an alternative diagnosis that is fully compatible with rationality.		
	Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v67.n2.3		