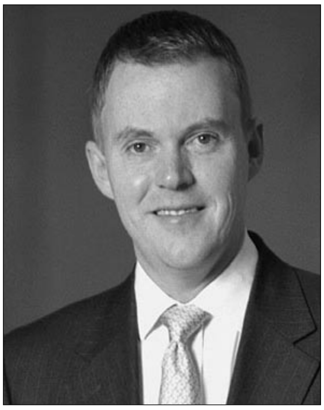

SCOTT DONALD SF Fin
Director of Fiduciary Research
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From the Chair of the Editorial Board

I AM VERY PLEASED TO ANNOUNCE THAT JASSA has recently been accepted for listing in the American Economic Association's electronic bibliography, *EconLit*, which includes 30 years of economics literature from around the world. *EconLit* is a comprehensive index of journal articles, books, book reviews, collective volume articles, working papers and dissertations, which is available in an easily searchable format at libraries and on university web sites. We are very honoured that JASSA will now be included in this world-recognised index.

In view of the ongoing uncertainty and evident disruption to global financial markets in recent months, the final issue of JASSA for 2008 focuses on a range of topics relating to risk management, the appropriate pricing of risk and the effects of regulatory changes on market volatility and liquidity.

This year has certainly been challenging for anyone involved in financial markets either as investors, advisers, policy makers or academics. But, it is only by delving more deeply into the causes of these recent events that we will develop new and better approaches to managing risk and innovation both at an institutional and industry-wide level. While it has not been easy to assess the implications of the widespread disruption to global financial markets, it is important that we critically examine these developments and learn from them.

Bruce Vanstone raises the issue of whether initial stop-losses actually do stop losses. He notes that the vast majority of trading books persistently urge traders to use initial stops with the implication being that trading without stops is like driving without a seat belt – risky. However, the results of his empirical study of the use of stops within a defined trading strategy suggest that initial stops degrade long-term portfolio performance.

With operational risk now being viewed as a major risk for financial institutions, Amandha Ganegoda and John Evans F Fin introduce a consistent framework to measure operational risk such that all three categories of risk: known-known, known-unknown and unknown-unknown risks are taken into account when determining the capital charge.

Don Hamson, Manoj Wanzare, Gavin Smith and Peter Gardner examine whether the short selling ban, introduced by ASIC from 22 September 2008, has reduced liquidity in the Australian stock market. By comparing a balanced sample of firms before and after the introduction of the ban, they found that stock market liquidity has decreased and intra-day volatility and idiosyncratic intra-day volatility have increased. They indicate that investors have also been negatively affected by a slowing in the price discovery process, increases in the cost of trading and less efficient trading.

As many of us would have observed in recent times, emerging markets allow investors to access high returns, but these opportunities carry high risks. While the cost of equity is an appropriate measure of this risk, there is no consensus on how to estimate this risk. Mark Humphery von Jenner SA Fin provides an analysis of six dominant approaches indicating that the investor's degree of international diversification determines the correct approach. He suggests that globally diversified investors should use a CAPM based on international inputs whereas, investors who only diversify locally should use a CAPM based on local inputs.

Dividend reinvestment plans (DRPs) remain a popular means of injecting capital into, or changing the debt/equity mix of, companies without incurring the administrative costs of a new rights or public issue. Recent research by Jean M. Canil SF Fin and Bruce A. Rosser SF Fin indicates, however, that Australian DRP discounts are related strongly to concurrent equity issues. This is partly because new equity issues require relatively high discounts to compensate investors for the risk of share price declines, given the well-documented undervaluation cost of new equity. They note that, for similar reasons, DRP discounts also relate strongly to related party ownership, with investors expecting higher discounts to compensate for the risks of investing in companies either controlled or strongly influenced by insiders.

David Costello, Stephen Gray and Alan McCrystal look at whether Australia offers any unique diversification benefits to an international investor. Their research indicates that there are negligible diversification benefits to be derived by a non-resident investor from holding Australian stocks within a well-diversified portfolio. And, the other equity markets that are available to a global investor effectively include the sorts of diversification opportunities provided by Australian equities.

We greatly appreciate the efforts of our authors, particularly in the current environment, and look forward to your contributions to future issues of the journal. The guidelines for submission are available from the Information Services section at www.finsia.com.

Please note also that there will be a Special Issue of JASSA released in January 2009, which is devoted to papers from the 13th Melbourne Money and Finance Conference, titled 'Recent Developments in Australian Debt Markets'. The conference was conducted by the Melbourne Centre for Financial Studies in May 2008 and was sponsored by the ANZ Bank, Commonwealth Bank of Australia, National Australia Bank, Reserve Bank of Australia and Australian Prudential Regulation Authority.