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## **From the Chair of the Editorial Board**

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## **Fair value accounting, credit ratings and cyclicity: implications for the stability of financial institutions**

LAKSHMAN ALLES F Fin

Key factors identified as contributing to the global financial crisis include the roles of financial accounting policies and credit rating agencies, and the combination of these factors in producing a continuing pro-cyclical destabilising effect on financial institutions. These issues are examined here in order to determine the lessons for Australian financial institutions.

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## **The evolving secondary market for private equity**

BEN MARGOW F Fin

As a result of the global financial crisis, interest in secondary market private equity has increased over the past 12 months. Following the sharp downturn in listed equity markets, many investors with targeted asset allocation levels found their policy threshold limits under threat. Other investors not necessarily following strict asset allocation targets were also under pressure to exit private equity (PE) investments due to deleveraging, and attempts to avoid future capital calls and minimise expected losses. The growing and evolving secondary market provides a channel for primary investors to exit illiquid investments such as PE.

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## **Some thoughts on leverage**

ANDREW MCROBERT SF Fin

Analysts can be misled by measured levels of gearing based on accounting standards, as opposed to actual gearing levels that require appropriate adjustments to disclosed liabilities. This paper re-examines the concept of leverage and identifies key areas where a new approach to assessing leverage is required, very different from that of 20th Century financial analysis.

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## **Preservation of lump sum capital under pension drawdown**

ROGER GAY F Fin

Most self-funding lump sum retirees take pensions by regular drawdown from a managed fund. But is drawdown too risky? This paper indicates that when an indexed pension is taken from a lump sum invested in a market index fund, the probability of retaining the original value of the lump sum in real terms (or better) reduces in direct proportion to the amount of the annual starting pension. It proposes an alternative retirement income strategy that is generally preferable to drawdown if term annuities can be purchased at a reasonable price, particularly if guaranteed by government.

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## **Australian and New Zealand insurers: issues for success**

JOHN EVANS F Fin

A survey of Australian and New Zealand insurers has identified a new focus on capital management within the industry. Insurers are recognising the need to better manage their risks, they are relying less on investment returns as a component of profits, and are using reserves instead of investment returns to manage profits.

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## **Shadow directorship risk for lenders in informal workout scenarios**

ERIC FLAYE A Fin

In the wake of the global financial crisis, it has become increasingly common for lenders to pursue 'informal workout' arrangements with distressed borrowers in an attempt to avoid the destruction of value often associated with formal insolvency proceedings. Although shadow directorship risk for lenders has been described as 'almost entirely imaginary' under English law, the same cannot be said for the position of lenders under Australian law. This paper makes some practical suggestions that may assist lenders in mitigating shadow directorship risk when engaging in informal workouts with Australian corporate borrowers.

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## **How profitable is the butterfly strategy in Australian fixed income markets?**

TARIQ HAQUE

This study investigates the profitability of the butterfly strategy, which is commonly used by active bond fund managers in order to boost portfolio returns. While the strategy's success is conditional on the accuracy of forecast shifts in the yield curve, it also has a defensive feature that may enable any losses incurred to be relatively small. We find that the cash and dollar duration-neutral butterfly does not, on average, generate positive profits after transaction costs. However, the regression-weighted butterfly often generates a statistically significant profit after transaction costs, of approximately two to three basis points per day.

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## **Book Review:**

### ***Opportunities beyond carbon* edited by John O'Brien**

REVIEWED BY PHIL PRESTON F Fin

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## **Book Review:**

### ***The crash of 2008 and what it means: the new paradigm for financial markets* by George Soros**

REVIEWED BY ALLAN BARTON

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## **New Finsia report:**

### ***Changing tides – consumer finance and the generational wealth divide***

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## **Webmaster recommends**