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Editorial

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Welcome to SAGE Publications

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This issue of the *Australian Journal of Management*, Volume 35, Number 1, April 2010, is the first issue of the *Journal* to be published outside the University. For 33 years the *AJM* was published in-house, under its six editors, with the help of many hands to deal with editorial, subscription, printing, distribution, and on-line elements of the *Journal*.

This issue is published for the University by SAGE Publications, who are now handling all elements but the editorial decision-making. Indeed, even elements of these – submissions and communications with authors and editors and reviewers – will be handled by a SAGE online platform.

As of this (April) issue, the *Journal* will appear three times a year, in April, August, and December. Although past years (1979, 1988, 1991, 2000–2004, and 2007) have sometimes seen three issues, these were special issues. In the future, as demand for its pages expands under SAGE's colophon, the *Journal* will, at some point, appear four times a year. As well as the wider coverage we will receive as part of SAGE's stable, we can expect more interest as a result of the Australian government's Excellence in Research for Australia (ERA) journal rankings, and the coverage by Scopus, as well as the Web of Science.

The Papers

With the rapid and ubiquitous promulgation of mutual funds' share prices every day, it is no surprise that current and past returns are determinants of current fund flows (sales and purchases). But in a paper that develops a new methodology, Benson et al. (2010) find circumstances in which the reverse occurs: current fund flows affect current returns. Specifically, they test for an endogenous, simultaneous relation between flow and return. Although current returns, as expected, have a positive impact on current flows, the reverse is not always the case. The pursuit of fund flows in large or established funds results in negative impacts on returns, but there is no evidence in their analysis of flow impact on return in the retail sector.

The original capital-asset pricing model (CAPM), derived by Sharpe and others from underlying models of portfolio choice, includes only a single-model risk factor. In 1993 French and Fama derived a three-factor model empirically, in which two additional portfolios were included – the book-to-market equity ratio and the firm size – to capture additional risk premiums in the market. Should the book-to-market equity ratio be assigned as a 'risk-based' (as opposed to a 'mispriced') explanation of share price formation? This is the question posed by Dempsey (2010),

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in his examination of Australian stock markets. Complementing US findings, he finds a strong association between stock returns and the firm's book-to-market equity ratio, likely because of this ratio's absorption of market leverage as a risk factor. Moreover, mispricing appears to play some part in the formation of market leverage itself.

Given the antecedents of the Global Financial Crisis (see my timeline, Marks, 2009), the reader could be forgiven in thinking that, in the title of the next paper, Warren (2010) is referring to home mortgages. But, as he explains, 'equity home bias' refers to the observation that most investors hold portfolios disproportionately weighted towards their local markets. Why? Warren builds a two-asset investment decision model which includes the inertia of the legacy portfolio choice, the expected returns, and portfolio risk and peer risk. Using Australian data, his model closely tracks the observed equity mix, better indeed than traditional mean-variance formulations, suggesting that the additional factors of legacy influence and peer risk are sufficient to generate equity home bias, even if they are not the whole story.

The question of whether active funds managers out-perform passive funds is an evergreen. In the next paper, Chan et al. (2010) look at the performance of a sub-set of active managers: those managing 'small-cap' equity funds in Australia, where 'small-cap' refers to the S&P/ASX Small Ordinaries and smaller traded stocks. On a risk-adjusted basis, their study finds clear evidence that these managers do possess superior stock selection ability, in this segment that exhibits both lower liquidity and lower analyst coverage.

The final regular paper does examine a sector that, at least in the US, triggered the GFC (Marks, 2009). In order to value mortgage-backed securities (MBS) analysts need information on the timing and extent of the loan prepayments (that is, payments in part or whole above the regular payments) by the mortgage borrowers. Default risk, at least in the US subprime market, probably swamped this factor, but Daniel (2010) is focussed on the Australian mortgage market. He adapts US fixed-rate loan-prepayment models to the Australian flexible-rate markets, and obtains very successful results when testing his model with Australian MBS data.

Counterpoint is a section of the *AJM* in which we place contributions that might spark debate. In the June 2009 issue we published a piece by Brewer (2009) about the Australian government's push to increase the volume of exports, using Austrade as its main policy vehicle. We followed this with a response from the chief economist at Austrade (Harcourt, 2009). In this issue we close the debate with a final response from the first author (Brewer, 2010). You be the judge.

Housekeeping

No, you didn't miss out on receiving the issue of December, 2009. Because the longer lead times of the current production pipeline, and because we have moved to three issues a year, with the first in April, we decided to cancel the December issue. For long-time subscribers, I hope that the extra issues you received in those past years when we published three in a year (most recently 2007) go some way to compensate you for this.

This issue, too, is my second last as the General Editor. At the end of June I retire from the University after an association with the *Journal* of over 30 years, the last 13 as General Editor. I wish to thank all who have helped me produce the *Journal*, especially Fiona Reay, Sandra Howey, Linda Camilleri, Sussanne Nottage, and Kristie Clemow, as well as a band of Area Editors and a small army of reviewers around the world (most recently listed in Marks, 2008). I wish to thank too the successive deans and directors of the Australian Graduate School of Management, and, lately, Alec Cameron and John Piggott of the Australian School of Business for their support.

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