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The articles in this issue of *The Journal of Derivatives* fall into two categories: articles presenting empirical evidence relating to major issues in derivatives practice, and articles offering ways to deal with a variety of more technical problems in pricing real-world derivatives.

In the first category, the lead article, by ap Gwilym, Buckle, Clare, and Thomas, looks at the incorporation of new information from official announcements of macroeconomic data into futures prices. Using transaction data from the LIFFE, the authors find that trading volume anticipates the news arrival and prices fully adjust within minutes. The evidence suggests that temporary mispricing during the adjustment process is slight. The second article focusing on a major issue in the financial economics of derivatives is Howton and Perfect's examination of the motives for corporate hedging. Finance theorists ask why a corporation should hedge at all, rather than letting the shareholders make decisions about hedging versus bearing risk on their own account. The article presents suggestive empirical evidence relating to a number of potential explanations that have been advanced in the literature.

Among the more methodological articles, we have Gibson and Boyer, who consider several models for forecasting correlations. More and more derivative contracts are being written that depend on the behavior of two or more underlying assets. This creates the need for practical correlation forecasting tools. The authors present a comparison test of several leading approaches, using accuracy in pricing options as the evaluation criterion. Jokivuolle examines the problem of pricing options on an underlying asset that exhibits autocorrelation, as many stock indexes do, due to infrequent trading of the component stocks. He presents results showing how large the problem may be, and offers an approach to correct for it in valuing options.

The last two articles describe techniques for significantly improving the performance of Monte Carlo simulation. El Babsiri and Noel describe how path-dependent options with payoffs that depend on the maximum or minimum value reached by an underlying over a period of time may be priced using a much more efficient Monte Carlo technique that combines simulation of just a few prices in a given path with analytic formulas for the limits conditional on those few prices. Finally, Jung presents a

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very useful exposition of a Brownian bridge approach that greatly improves the performance of Monte Carlo simulation with low-discrepancy quasi-random sequences.

This Fall, we have once again been presented with market events that tax the comprehension of the general public with respect to derivatives. The very visible problems of a couple of prominent hedge funds have stoked the continuing competition in the popular media to find the largest possible number to report as the size of a trading firm's derivatives position. It has gone beyond simply stating notional principal values as if they represented funds at risk (the default risk exposure on a $1 billion swap being treated as if it were comparable to that on a $1 billion loan). It has now been realized that even larger numbers for derivatives positions can be produced by adding up notional principal amounts, without worrying whether the risk exposures may be offsetting (a $1 billion fixed for floating swap plus a $1 billion floating for fixed swap that locks in a profitable spread with negligible risk can still be reported as "$2 billion in derivatives positions!").

It all goes to show that — as we have said before — more people should be reading *the Journal of Derivatives.*

Stephen Figlewski
Editor