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Editorial

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Starting a new volume of *Financial Markets and Portfolio Management* (FMPM), I would like to draw your attention to the *Report of the Editor 2009* at the end of this issue. As always, I give a brief overview of the development of the journal in the past year and show our submission and acceptance statistics. Last year, we received far more submissions than in any previous year. As a consequence, the acceptance rate decreased further to approximately 10% of all manuscripts submitted. As in the years before, most articles required two rounds of revisions before they were accepted for publication. The average turnaround time for one round was about three months. Although rejection rates will likely stay high, we continue to actively solicit good articles and always look forward to submissions of interesting research papers, perspective pieces, and book reviews.

Given the importance of the Financial Crisis in our subject field, we start this issue with two articles directly related to the Financial Crisis and the measures enacted to mitigate its effects or to avoid similar crises in the future. In the first article of this issue, Linus Wilson and Yan Wendy Wu compare the effectiveness of three different types of bailouts for too-big-to-fail banks. In particular, they compare a "bad bank" model, where bad loans are bought up by the government, possibly at prices above market value, to the recapitalization of banks by common or by preferred stock.

In the second article of this issue, Jin Cao and Gerhard Illing look at systemic aspects of liquidity, or rather illiquidity, in the banking system. They show that systemic illiquidity is not exogenous as lenders have an incentive for illiquid assets in the presence of a lender of last resort. Although rejecting "narrow banking" as a solution,

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they call for liquidity regulation limiting the maturity mismatch in the balance sheets of banks.

The third paper of this issue, authored by Thomas Nitschka, looks at return differences of currency portfolios and their potential explanation by macroeconomic risk factors. The author provides empirical evidence for the relationship between the carry-trade premium and macroeconomic risk and identifies the housing-income ratio as a predictor for the carry-trade premium.

The fourth paper, authored by Rafael Weissbach and Carsten von Lieres and Wilkau, models capital requirements for non-performing loans. The authors propose a risk model based on the dynamics of loss-given default, allowing for correlation within non-performing loan portfolios as well as between performing and non-performing loans.

This issue's Perspectives article is written by Basu Nilanjan and reviews the development of firm diversification over the last three decades. Although the trend towards focus does not seem to be as strong as in the 1980s, newly listed firms tend to be less diversified in recent periods. Moreover, diversifying decisions are often subsequently reversed.

The book review in this issue discusses the book "Behavioural Finance" by William Forbes. The reviewer is Evert Wipplinger.

Finally, I would like to draw your attention to this year's conference of the Swiss Society for Financial Market Research, which is taking place in Zurich on March 19, 2010.