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BOOK REVIEW

Pojarliev, M. and R. M. Levich (2012): *A New Look at Currency Investing*, CFA Institute

94 pages, downloadable for free, print edition USD 9.95

Rico von Wyss

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If you want to run your own currency fund, do not read this book. *A New Look at Currency Investing* is not a book on how to run a currency fund. It is not about currency hedge fund management. It does not tell you in which currencies to invest. On the contrary, this book is about the types of currency funds that exist, which funds (or strategies) are successful, and how an investor can identify them and invest in them.

The book begins with a foreword by Mark Kritzman that explains the historical development of currency investing, emphasizing that currencies are a comparably new asset class. Momtchil Pojarliev and Richard Levich pick it up from here and concisely describe the pros and cons of devoting part of the asset allocation to currencies. Nowadays, the advantages of currency diversification probably outweigh the shortcomings.

After outlining the necessary basics such as, for example, parity relations, the book follows a risk factor approach. The authors identify three basic currency investing strategies (carry strategy, trend-following strategy, and value strategy) based on the following four risk factors: a carry factor, a trend-following factor, a value factor, and a volatility factor. They consider currency investments that follow these basic strategies as easy (and therefore cheap) to implement. Funds following currency investing strategies based on these four so-called systematic risk factors are identified as beta grazers. They should charge comparably low fees. Currency strategies that generate superior returns, but do not load on the systematic risk factors stem from alpha hunters, who should be compensated for their superior skills. The authors next operationalize the concept, measure the currency and factor returns, and conduct a performance evaluation exercise on the funds universe and on single funds. Overall, the four factors explain a significant part of the returns. The results hold even after a number of robustness

R. von Wyss (✉)
Swiss Institute of Banking and Finance, University of St. Gallen, St. Gallen, Switzerland
e-mail: heinrich.vonwyss@unisg.ch

checks. In their sample of currency-only funds, they find the alpha hunters to generate superior, returns compared to beta grazers. The main advantage, however, is that the diversification benefits are much higher for the alpha hunters. This is important, given that one of the main selling points of currency funds is diversification.

As mentioned above, the book only tells us how to identify the alpha hunters; it contains no recipe for achieving alpha hunter returns. What alpha hunters really do and what their superior skills are remain mysteries. However, this is not the relevant question for the private or institutional investor who wants to allocate a part of his or her money to currency-only funds. The important questions of how to identify successful currency funds and what share of wealth should be allocated to them are answered clearly in the book.

A New Look at Currency Investing draws to a large extent on research by the two authors and their decades of experience in the currency management industry. The book is easy to read. It includes a number of simple formulas and regressions and is, therefore, written at an appropriate level of abstraction for an educated investor. Anyone considering allocating a fraction of his or her wealth to currencies should read this book.