Winner traces returns to source

Claude B. Erb and Campbell R. Harvey won the Graham and Dodd Award for their article analyzing the sources of returns from commodities. The award is given annually by the Financial Analysts Journal for excellence in research and financial writing.

Mr. Erb, who is managing director at Trust Co. of the West, Los Angeles, and Mr. Harvey, a finance professor at Duke University's Fuqua School of Business, Durham, N.C., argued that the long-term risk premium for commodities futures stems from rebalancing the portfolio.

In contrast, a widely touted article by two finance professors, Gary Gorton of the University of Pennsylvania's Wharton School of Business, Philadelphia, and K. Geert Rouwenhorst of the Yale School of Management, New Haven, Conn., failed to win any recognition from the FAJ's advisory and editorial board, which picks the Graham and Dodd winner. Both articles were published in the March/April 2006 issue of the FAJ.

The Gordon/Rouwenhorst paper found that historic returns from commodity futures stem mostly from "normal backwardation," meaning investors, on average, are rewarded for providing insurance to protect commodity producers from dips in prices. But the award winners said Messrs. Gorton and Rouwenhorst had misattributed the source of the return (Pensions & Investments, Dec. 26, 2005).

— JOEL CHERNOFF

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