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The subprime mortgage market has been growing at unprecedented levels over the last several years. The current housing market slowdown, increased delinquencies and questionable underwriting is creating enormous price volatility in securitized pools of sub prime loans. Furthermore, there is limited access to sophisticated valuation models for a market that has not seen a full cycle of outcomes. Hence, we begin this issue of *The Journal of Fixed Income* with an article by Robert Dunskey and Thomas Ho that provides an option adjusted spread valuation model for mortgage loans that incorporates both default and prepayment risks. Valuation has the intuitive sensitivities to the explanatory variables of FICO score, loan-to-value ratio, loan size and recovery ratio. This model is extremely useful for both relative value decisions and risk management.

In the next article, Arik Ben Dor, Simon Polbennikov and Jeremy Rosten provide a new estimation technique for credit default swaps that incorporates spread level in spread volatility. Their risk measure, Duration Times Spread, generates better out-of-sample volatility forecasts compared to duration alone. Next, Philippe Jorion and Gaiyan Zhang find empirical evidence that the stock price effect of rating changes depends on the ratings prior and after the announcement. The importance of prior rating is significant enough that the effect of the investment-grade barrier variable disappears and the informativeness of bond upgrades is established. Then, Richard Cantor and Christopher Mann show that rating systems that exist on the same stability and accuracy frontier are similar in their aggregate forecast capabilities. Therefore, preferences toward stability or accuracy will determine a client's choice of rating system.

A model of structural change is frequently necessary to detect underlying relationships. Andrew Davies uses a regime switching technique to show that international bond markets are governed by a common long run relation with occasional breaks. Finally, Christian Koziol and Peter Sauerbier derive a model that quantifies liquidity spreads for bonds with plausible properties. They also provide supportive empirical evidence.

We hope you enjoy this issue of *The Journal of Fixed Income*. Your continued support of the Journal is greatly appreciated.

Stanley J. Kon
Editor

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