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As we see a number of highly unusual phenomena in macroeconomics around the world today, our crystal ball becomes quite cloudy. For example, the United States has taken a different path than many other countries by offering Keynsian-style spending along with continued monetary loosening as a double dose of stimulus. Yet early reports are that the U.S. recovery has lagged those in other countries that injected a smaller bolus of debt and spending into their economies. Many pundits foresee runaway inflation around the corner as a result of this historically unprecedented peacetime spending, yet history provides a readily apparent opposing view. The Japanese government for the past 19 years has borrowed heavily to spend heavily and has been rewarded with inflation's ugly antidote, deflation, as its reward.

Lest you believe anything is better than inflation, deflation is far worse. Under inflation, the economy booms along at a speedy pace (for awhile), with assets seemingly worth more and more. Everyone decides they have made spectacularly good investment choices until it dawns on them that everyone else has as well. The party ends when the currency devalues. But it is a great ride while it lasts.

Deflation means asset values drop. We have that in parts of the real estate sector now. There is no reason to buy that building or that machinery or that piece of land today because tomorrow it will be available cheaper. This may sound not too bad, but the effect grinds an economy to a halt. Japan has not recovered from its market high of 19 years ago despite unleashing tremendous government spending and public debt. It has not had inflation. It is a troubling precedent from the second-largest economy in the world.

Does inflation or deflation await us? This may be one of the most important bets you will make in your business career. Never more than now will the sound fundamentals of the venture capital and equity buyout businesses be more important. We dedicate this issue to these topics and will, as always, be willing to look at cases and situations outside of North America to widen our exposure to outside insights.

Selecting CEOs to run our companies is one of the most important decisions we make. We have all lived with CEOs who were not up to the job, and as we have seen in many large companies, such as General Motors and Sears, the lack of a talented CEO is devastating. Leslie Pratch has written for *The Journal of Private Equity* before, and her pieces take us deep into individual motivation to help us place better bets on those we hire. This piece tackles one of the toughest—and most important—of all issues: integrity. As always, her work is thoughtful and thorough and has immediate application for anyone making crucial decisions as to who will be in charge of the companies we invest in.

New product development is both the dream and lifeline of many companies. "Build a better mousetrap and the world will be a path to your door," as the old saying goes. Most of us realize things don't quite work this way, but just the same, we jump at the chance to work on new products. De Cleyn, Jacoby, and Braet take us to Belgium and through 17 cases that highlight when the odds of success are the best—and when we should worry the most. They note the issue of marketing as a central driver of success but go well beyond that. If you are thinking of a new product, you'll find their checklist of how to make it work a good guide for your own procedures.

How do we select successful ventures? It is the age-old question that we can never stop asking. Anson Wong takes us to Hong Kong to obtain the views of venture capitalists, and compares their answers to those from prior studies in Europe, North America, and Asia. How important is it to have a deal referred to the investors from a trusted source? How important is it that the founders have personal compatibility with the investors? Do the investors need to be familiar with entrepreneurs prior to the deal? If you thought each of these was important for a successful investment, take a closer look at this article.

Valuation of a start-up is, of course, always problematical. Goldenberg and Goldenberg use the option-based approach to develop a deeper understanding of what the VC firm is investing in and how to value the different pieces. Discounted cash flow has always been troubling conceptually, as it presupposes "predictable" cash flows, and as we all know, venture investments have many wonderful characteristics but predictable cash flows are not one them. In looking at how often we are wrong in valuations—both on the upside and downside—there can be no question but that our methods are suspect. This piece will help you think a bit further about problems with the standard DCF approach and how to do better.

We all now realize that the state of our equity markets here in North America has a huge impact on investment returns. But what about other countries? Does having fewer publicly traded companies limit exits for private equity funds? Or do other methods of exit simply fill in the gap? Roberto Charvel provides empirical evidence from 25 countries and 1,762 transactions throughout the 1998 to 2007 period to help us think about these effects.

How do Publicly Traded Private Equity investments perform? In theory, this is our chance to participate—in a different form—with the best in the industry. Lahr and Herschke identify 274 listed private equity entities in the period 1986 to 2008. Do these investments outperform the general market when adjusting for risk? Does the structure of the entity, i.e., an internally managed firm such as Blackstone or Allied Capital, or an externally managed fund such as Castle Private Equity or Electra Investment Trust, matter for returns? This gets at the question of the viability of the "fund of funds" concept. There are lots of statistics and analyses in this article that are well presented and discussed. I urge practitioners who may not be well versed in these processes to spend a bit of time with this piece, as it lays out a series of ways to calculate returns that are worth understanding.

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