

# PERFORMANCE PERSPECTIVES

with David Spaulding



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Since 1990, The Spaulding Group has had an increasing presence in the money management industry. Unlike most consulting firms that support a variety of industries, our focus is on the money management industry.

Our involvement with the industry isn't limited to consulting. We're actively involved as members of the CFA Institute (formerly AIMR), the New York Society of Security Analysts (NYSSA), and other industry groups. Our president and founder regularly speaks at and/or chairs industry conferences and is a frequent author and source of information to various industry publications.

Our clients appreciate our industry focus. We understand their business, their needs, and the opportunities to make them more efficient and competitive.

For additional information about The Spaulding Group and our services, please visit our web site or contact Chris Spaulding at [CSpaulding@SpauldingGrp.com](mailto:CSpaulding@SpauldingGrp.com)

## THE CIPM PROGRAM

The CFA Institute's Certificate in Investment Performance Measurement seems to be doing well, though one can always see ways to improve it. While we don't have details on the registration level, it appears that the numbers are up, at least if we use our CIPM prep training classes as a barometer, as our attendance levels this year are running quite well.



The LinkedIn CIPM group has had a couple conversations regarding how to improve the program. I suspect that some feel that by now it should be more common than it is; however, given that it's still less than five years old, I think we need to exhibit some patience. Plus, given the market we've experienced over the past three years, many individuals were denied the opportunity to take it.

In one post someone suggested that the exam needs to be made more difficult, with questions on (for example) how to derive returns on swaps. Since I've already taken and passed the exam, I am a bit biased on this matter (i.e., if I hadn't yet taken it I might oppose anything that would make it more difficult for me). That being said, we can expect that it will get more challenging, just as the CFA program has: another reason to take the exam now!

At last month's First Rate user conference I spoke on GIPS® 2010. One of the questions that was posed dealt with the CIPM program, and I always like the opportunity to speak about this topic. In my view the CIPM does two things:

- 1) It heightens the role of performance measurement within the financial services and investing community
- 2) It serves to identify individuals who have achieved a high level of expertise in performance.

I mentioned how when I was in systems in the 1970s and 1980s and interviewing individuals, we had a saying when we found someone with ten years experience: do they have 10 years experience or one year ten times? The same applies to performance measurement: does someone have a narrow, limited amount of knowledge or have they been exposed to many aspects of performance. While there is absolutely nothing wrong with specializing in one area, to achieve the CIPM a candidate must demonstrate a broad level of knowledge.

Those of us who have more than a couple decades experience in performance can testify to the tremendous growth in respect performance has achieved: its value to the investment firm has never been higher. We should all encourage this by taking the exam if we haven't already and encouraging others to do so. Several hundred individuals have achieved this designation: we look forward to when the one thousandth individual does, and then the ten thousandth!

<http://www.SpauldingGrp.com>

# The Journal of Performance Measurement®:

## UPCOMING ARTICLES

### Performance Outsourcing 2010 – Broadening the Debate

– *Mark Goodey and Jim Trotter*

### GIPS 2010: Highlights of Forthcoming Changes

– *Todd Juillerat*

### Extreme Risk Analysis

– *Lisa Goldberg, Michael Hayes,  
Jose Menchero, Indrajit Mitra*

### Determining the Optimal Benchmark Indices for a Domestic Equity Returns-Based Style Analysis

– *David Blanchett*

### Advocating a Trade/Strategy Approach to Attribution

– *Jem Tugwell*

## AUTOMOBILE UNIVERSITY

The famed sales author and trainer Zig Ziglar often speaks about “automobile university”: using your drive time to learn. While driving we have several options as to what to do, including:

- listen to music
- listen to news
- listen to talk radio.



Another option is to load up, either on a CD, cassette tape (do they still have these?), or your iPod, a book or educational program to listen to. Over the past twenty years I have done this off-and-on. When I first started my business I was constantly listening to programs on sales, marketing, negotiating, and much more, to help me learn the skills necessary to develop our firm. But there have been many periods when I have veered off and wasted my time by listening to things on the radio which never really provided me with much value. For the past six months or so I have been listening almost entirely to books, most of which I acquired from Audible.com, a service one of our clients turned me on to. Because I am often on the road I have lots of continuous time to devote to this activity, though even for short drives it's a great way to make progress on a book. And the books don't always have to be about business, though most of mine have been.

While I love to read, as a part-time doctoral student I don't have a lot of time to devote to this other than for material needed for my classes. However, the option to listen to books is a great way to make it through many books in a relatively short period.

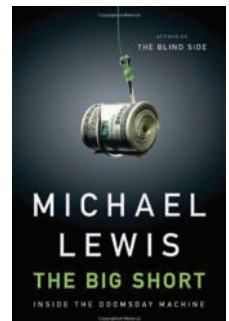
I strongly encourage you to consider this as an alternative to what you're doing now. There have been several books released in the past couple months that deal with the recent market upheaval, many of which should be considered “must reads” by the industry.

## LACKING APPROPRIATE RISK MANAGEMENT

Speaking of listening to audio books, I am wrapping up Michael Lewis' latest book, *The Big Short*. At first I thought it was going to essentially be a repeat of Gregory Zuckerman's *The Greatest Trade Ever*, since he began by mentioning the strategy to invest in credit default swaps, which is what John Paulson, the main subject of Zuckerman's book, did to amass billions of dollars in profits. But I was wrong, Lewis provides a much broader and deeper analysis of the market. I highly recommend the book to gain some great insights into the creation of the collateralized debt obligations (CDOs) which often involved the subprime mortgages which contributed greatly to the market's meltdown.

Lewis touches on the lack of risk management which resulted in many Wall Street firms holding billions of dollars of these assets. We were in the middle of a bubble and didn't realize it. But, when the bubble burst, billions were lost.

As one individual asked, what will happen if the default rate goes to 10% or 20%, the answer was obvious: however, folks weren't asking this question because there was no expectation that this would occur. Models don't always have to be extremely complex to assess a firm's risk. Clearly, the tools were either lacking, not being used or ignored. We, as an industry have to do a better job. Since 1987 we have seen several major market



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downturns; we should realize that these events are happening with greater frequency. We must ensure that we pay risk management its proper respect to reduce the impact of the next one.

We will shortly be rolling out our first risk survey, which will address both risk management and risk measurement. We are teaming up with another firm, whose identity will shortly be made public. We hope you will participate.

## FROM OUR READERS...

We heard from Neil Riddles regarding last month's newsletter:

*Dave,*

*As always, I enjoyed your monthly newsletter.*

*I just wanted to comment on the daily buy and hold. Using daily holdings for buy and hold attribution does come much closer to the correct overall portfolio return. However, the downside is that more frequent periods result in more residual which has to be "smoothed" away.*

*Regards,*

*Neil*

Interesting point about residuals. Yes, if we do daily attribution and link the effects we'll have residuals which need to be *smoothed away*. We have several models to employ for this purpose, including the Cariño, Menchero, and Frongello methods. It would be an interesting exercise to compare the magnitude of the daily effects being smoothed versus the monthly: something I'll take up in my free time! Or, if someone else wants to give this a try, we'd welcome the evaluation and the opportunity to see the results.

I would be remiss if I didn't mention that with the geometric approach, there would be no residuals. However, given that the vast majority of firms prefer arithmetic, we will have residuals.

## EASTER EGG HUNT

**We want to thank all of you who participated in last month's Easter egg hunt game. The first person to email us with the correct location of the hidden Easter egg won a free pass to PMAR VIII or PMAR Europe. The winner was David MacDonald Taylor from ADIA.** David will be joining us in London on the 8th and 9th of June for PMAR Europe. Every one that participated is also eligible for a 10% discount off of our PMAR conferences.

Special thanks to:

**Lindsey Bostock-Cross - StatPro**

**Mat Raynor – BNY Mellon**

**Ravinder Soor – RiskMetrics**

**Todd Juillerat – SSgA**

**Alain Erwin – Strategie Investment Performance - France**

**Marijana Adzic – University of Michigan**

## KEEP THOSE CARDS & LETTERS COMING

*We appreciate the occasional e-mail we get regarding our newsletter. Occasionally, we hear positive feedback while at other times, we hear opposition to what we suggest. That's fine. We can take it. And more important, we encourage the dialogue. We see this newsletter as one way to communicate ideas and want to hear your thoughts.*

**Susan Agbeneto – Opus Investments**

**Nathan Harris – Ft. Washington Investment Advisors**

**Ann Massey – Plante Moran Financial Advisors**

**John Stork**

**Kathleen Maddy – River Road Asset Management**

**Travis Pollock – BB&T**

**Kent Lawson – Longview Asset Management**

**John Memminger – Advent**

**Tom Anderson – Ft. Washington Investment Advisors**

**Margaret Wasnak – Pinebridge Investments**

**Wendy Simenson – Vanguard Institutional Advisory Services**

**Debi Deyo Rossi – Turner Investment Partners**

**Sandy Ho – Morgan Stanley Smith Barney**

**Terri Taylor – Fifth Third Asset Management**

**Lee Detlaff – SunGard**

**Jay Mok – Advent**

**Andre Mirabelli**

**Richard Mitchell – RBC Dexia Investor Services**

**Jason Totedo – Wilshire Associates**

**Mudhaffar Almazrouei – ADIA**





## THE SPAULDING GROUP'S 2010 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
May 17-18, 2010	Fundamentals of Performance Measurement Training	New York, NY (USA)
September 13-14, 2010	CIPM™ Principles Exam Preparation Class	Los Angeles, CA (USA)
September 15-17, 2010	CIPM™ Expert Exam Preparation Class	Los Angeles, CA (USA)
September 20-21, 2010	CIPM™ Principles Exam Preparation Class	New Brunswick, NJ (USA)
September 22-24, 2010	CIPM™ Expert Exam Preparation Class	New Brunswick, NJ (USA)
September 27-28, 2010	Fundamentals of Performance Measurement Training	Boston, MA (USA)
September 29-30, 2010	Performance Measurement Attribution Training	Boston, MA (USA)
October 4-5, 2010	CIPM™ Principles Exam Preparation Class	London, England (UK)
October 6-8, 2010	CIPM™ Expert Exam Preparation Class	London, England (UK)
October 19-20, 2010	Fundamentals of Performance Measurement Training	San Francisco, CA (USA)
October 21-22, 2010	Performance Measurement Attribution Training	San Francisco, CA (USA)
November 16-17, 2010	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
November 18-19, 2010	Performance Measurement Attribution Training	Chicago, IL (USA)
December 7-8, 2010	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 9-10, 2010	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

*For additional information on any of our 2010 events, please contact Christopher Spaulding at 732-873-5700*

*Save  
the  
Dates!*

*The Journal of Performance Measurement®  
Eighth Annual International*

**PMAR**

Performance Measurement,  
Attribution & Risk

**Conference**

*May 19th - 20th, 2010*

*The Journal of Performance Measurement®  
In Association with RIMES Technologies*

**PMAR**

Performance Measurement,  
Attribution & Risk Conference

**EUROPE**

*8 - 9 June 2010 – London*

## TRAINING...

### *Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution*

#### TO REGISTER:

Phone: 1-732-873-5700

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E-mail: [info@SpauldingGrp.com](mailto:info@SpauldingGrp.com)



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#### FUNDAMENTALS OF PERFORMANCE MEASUREMENT

A unique introduction to Performance Measurement specially designed for those individuals who require a solid grounding in all aspects of performance measurement. The Spaulding Group, Inc. invites you to attend Introduction to Performance Measurement on these dates:

May 17-18, 2010 – New York, NY

September 27-28, 2010 – Boston, MA

October 19-20, 2010 – San Francisco, CA

November 16-17, 2010 – Chicago, IL

December 7-8, 2010 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

The Spaulding Group is registered with CFA Institute as an Approved Provider of professional development programs. This program is eligible for 12 PD credit hours as granted by CFA Institute.



#### PERFORMANCE MEASUREMENT ATTRIBUTION

Two full days devoted to this increasingly important topic. The Spaulding Group, Inc. invites you to attend Performance Measurement Attribution on these dates:

September 29-30, 2010 – Boston, MA

October 21-22, 2010 – San Francisco, CA

November 18-19, 2010 – Chicago, IL

December 9-10, 2010 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

The Spaulding Group is registered with CFA Institute as an Approved Provider of professional development programs. This program is eligible for 12 PD credit hours as granted by CFA Institute.



#### IN-HOUSE TRAINING

The Spaulding Group has offered in-house training to our clients since 1995. Beginning in 1998, we formalized our training, first with our Introduction to Performance Measurement class and later with our Performance Measurement Attribution class. We now also offer training for the CIPM program. To date, close to 3,000 individuals have participated in our training programs, with numbers increasing monthly.

We were quite pleased when so many firms asked us to continue to provide in-house training. This saves our clients the cost transporting their staff to our training location and limits their time away from the office. And, because we discount the tuition for in-house training, it saves them even more! We can teach the same class we conduct to the general market, or we can develop a class that's suited specifically to meet your needs.

The two-day introductory class is based on David Spaulding's book, Measuring Investment Performance (McGraw-Hill, 1997). The attribution class draws from David's second book Investment Performance Attribution (McGraw-Hill, 2003).

**UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit [www.SpgShop.com](http://www.SpgShop.com) today to order your set.**

Our performance experts have created a study aid which can't be beat: *flash cards!* These handy cards will help you and your associates prepare for the upcoming CIPM Principles Exam. Unlike a computer-based study aid, you can take them anywhere to help you test your knowledge.

Benefits of Flash Cards:

- Work at your own pace
- Immediate feedback
- Strengthen and reinforce core CIPM principles

These cards are a *must have* for anyone preparing to take the CIPM Exams.

