

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, we focus 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

“BYE, BYE AIMR-PPS®, SAAJ, UK-IPS,...”

Hopefully, if you're compliant with one of the CVGs (Country Version of GIPS®), you're fast on your way to adopting the provisions of “GIPS 2005,” which go into effect 1 January 2006 and which eliminate these CVGs.

I gave a talk at the NYSSA¹ recently to discuss the upcoming changes. We've included a copy of my talk with this month's newsletter. In my address, I referred to several of the changes which are taking place. If you haven't looked at the standards yet, you should plan on doing this soon. There are definitely a few items you need to be aware of, and perhaps more than a few, depending on the markets which you're involved.

UNDERSTANDING THE STANDARDS' PLACE IN THE UNIVERSE

When you're looking for rules, and there's only one set available, the tendency is for people to go to that rule. However, it may not apply. Too often people see the rules as outlined in the AIMR-PPS and/or GIPS as holy writ, but often they are wrong.

Of late, we've been fortunate to work with a few retail brokerage firms and software vendors who work in this market, who use these standards as their benchmark. Why? Because their clients often ask, “Is the system AIMR compliant?” or, “Are our reports compliant with the standards?”

However, their clients (retail investors) shouldn't care very much about these standards, as they are for discretionary managers. Granted, they have some great ideas and principles, which should be adopted by many, but some of the rules can be confusing: time-weighting, for example. Why would a retail investor care about time-weighted returns? And yet, many in this market insist that returns be time-weighted (because that's what GIPS and the AIMR-PPS require). However, they will result in misleading information for the client, since they eliminate all of their cash flow decisions! And since the portfolio's return is based on these decisions, the money-weighted return (*i.e.*, IRR²) is the way to go.

We have custodial firms as clients, too, who often hear, “Is your system compliant with the AIMR-PPS?” What does a custodian have to do with the standards (unless they're also managing money)? Nothing! But responding can be “ticklish,” because they don't know what their competition may be telling the prospect. Ideally, they inform the requestor-of-information that the standards apply to

¹ New York Society of Security Analysts

² Although it's acceptable to use the Modified Dietz as an approximation to the IRR.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

**Thinking Through Fixed
Income Attribution –
Reflections from a Group
of French Practitioners**

**Performance Compliance
Challenges for Portfolio
Managers**

**Interview – Alecia Licata,
CFA Institute**

**Performance Attribution and
the Accuracy of Detecting
Timing and Selection Skills.**

**Concentrating Performance
Attribution Information**

**An OAS Framework for
Portfolio Attribution Analysis**

investment managers who have discretion over their clients' portfolios, and that a custodian is a different type of entity, for which the standards do not apply.

It is technically not permitted to say, "We comply, except for..." However, I don't see any reason why a custodian cannot say that those parts of the standards that make sense for them (e.g., time-weighting returns) have been adopted, but that most of the standards aren't geared towards custodial banks or brokerage firms.

And, of course, since 1992 we've all heard the question, "Is your software AIMR-PPS / GIPS compliant?" And, since that time, we have, in unison, said, "Software is a tool to help firms become compliant, but the software itself cannot be compliant."

ENGLISH, AN UNCOMMON LANGUAGE

I was reading William Safire's 1990 book, How to Write – The Essential Misrules of Grammar, and came across this interesting quote on page 150:

*"Americans put the comma and the period inside quotation marks; the British put them outside. We [Americans] use double marks to enclose the primary quotation and single marks to indicate quotations within quotations, while the British do precisely the opposite. **That's because they're foreigners.**"*

I want to thank William Safire for explaining why we disagree. Perhaps this is also the reason why the Brits drive on the wrong side of the road!³

DAVE'S BOOK CLUB

I couldn't believe how many of you told me how you responded to my suggestion in the July issue to read You, the Owner's Manual, by Roizen and Oz. So, I decided to offer another suggestion: UFOs, JFK, and Elvis, by Richard Belzer.

You may know Belzer from his various television roles. He's quite an interesting guy. And, this book is very interesting. I guess he's a bit of a "conspiracy nut."

Those of us who were around when JFK died no doubt recall many of the oddities surrounding his assassination. Belzer pulls these together and offers many more. If you aren't more than a "tad" bit curious as to what really happened after you read his book, I'd be surprised. He also addresses some other issues, which are also interesting.

His writing is excellent and often humorous. Hope you enjoy it!

³ I hope I don't offend anyone...this is here mainly to pick on my friend, Carl Bacon.

2005 Performance Presentation Standards Survey

The deadline to participate in the 2005 Performance Presentation Standards has now passed. We thank everyone who submitted their responses and we will now begin compiling the results.

The detailed results will be available in the Fall 2005, please stay tuned for the results.



WE'RE CELEBRATING! 1,000 STUDENTS!

We began offering training classes about seven years ago. And since then, we've held them throughout the United States, in Europe, Australia, South Africa, and the Middle East. In addition to our regularly scheduled classes, we've also conducted numerous in-house classes, for firms such as the World Bank, First Union Bank (now Wachovia), State Street, Prudential, Nicholas Applegate, Abu Dhabi Investment Authority, and the Queensland Investment Corporation.

We recently crossed the 1,000 mark in the number of students who have attended our training. We're proud of this achievement and are also pleased that we're on our way to the next 1,000!

WE'RE CELEBRATING! AN ENGAGEMENT!

This isn't one of those formal announcements that you see in the papers, but as the proud father, I can't help but share the good news. Our older son, Chris, who is also our VP of sales, is engaged!

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.

THE SPAULDING GROUP'S 2005 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION	DEADLINE
September 12-13	Introduction to Performance Measurement Training	New York, NY (USA)	September 9, 2005
September 14-15	Performance Measurement Attribution Training	New York, NY (USA)	September 9, 2005
October 4-5	Introduction to Performance Measurement Training	Toronto, Canada	September 30, 2005
October 6-7	Performance Measurement Attribution Training	Toronto, Canada	September 30, 2005
October 17-18	Introduction to Performance Measurement Training	Boston, MA (USA)	October 14, 2005
October 19-20	Performance Measurement Attribution Training	Boston, MA (USA)	October 14, 2005
November 2	Fixed Income Attribution (FIA™) Symposium	New York, NY (USA)	November 1, 2005
November 7-8	Introduction to Performance Measurement Training	Los Angeles, CA (USA)	November 4, 2005
November 9-10	Performance Measurement Attribution Training	Los Angeles, CA (USA)	November 4, 2005
November 15-16	Performance Measurement Forum	Brussels, Belgium	November 11, 2005
December 1-2	Performance Measurement Forum	Orlando, FL (USA)	November 25, 2005
December 6-7	Introduction to Performance Measurement Training	Washington, DC (USA)	December 2, 2005
December 8-9	Performance Measurement Attribution Training	Washington, DC (USA)	December 2, 2005

For Additional information on any of our 2005 events, please contact Christopher Spaulding at 732-873-5700

TRAINING...

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

TO REGISTER:

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E-mail: info@SpauldingGrp.com

INTRODUCTION TO 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:

September 12-13, 2005 New York, NY

October 4-5, 2005 Toronto, Canada

October 17-18, 2005 Boston, MA

November 7-8, 2005 Los Angeles, CA

December 6-7, 2005 Washington, DC

15 CPE Credits upon course completion

PERFORMANCE MEASUREMENT ATTRIBUTION

A day and a half devoted to this increasingly important topic. The Spaulding Group, Inc. invites you to attend Performance Measurement Attribution on these dates:

September 14-15, 2005 New York, NY

October 6-7, 2005 Toronto, Canada

October 19-20, 2005 Boston, MA

November 9-10, 2005 Los Angeles, CA

December 8-9, 2005 Washington, DC

11 CPE Credits upon course completion

These programs may qualify for the CFA Institute's Professional Development Credit. If you are a member of the CFA Institute, please refer to their website to determine whether this program meets the criteria for CFA Institute PDP credit, to calculate credit hours, and to verify documentation requirements. www.cfainstitute.org/pdprogram

*Customized In-House Training is also available.
Please call or email for additional details.*