

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

FLOPPING CONVENTION...LET'S NOT BE SHY

Nissan is running an advertisement campaign with the headline "Flop Convention On Its Head And You Can Change The Game Forever." It features a photo of former high jumper, Dick Fosbury, who introduced a drastically different way to jump. Called the "Fosbury Flop," it was unlike anything that had previously been done. It was radical. And, it resulted in a lot of attention, much of it negative.

That is until folks realized that Fosbury was on to something. His method actually was better. And today, it's the dominant way high jumpers elevate their bodies across the bar.

Many of us are challenging the conventions of past methods employed in performance and risk measurement. And this isn't the first time this has occurred, either. Although time-weighting dominates today, back in the 1960s it was money-weighting; sadly, those who sold time-weighting oversold it.

Today I, along with Steve Campisi, Stefan Illmer, and a few others are attempting to awaken performance measurement and investment professionals to the power of money-weighting.

I have attempted to "flop convention" in other ways, too. For example, challenging asset-weighting for composite returns and the use of the aggregate method. Unfortunately, not everyone is open to the idea of change, but I remain hopeful that we will see shifts in the future.

How else can we flop convention?

IT'S SURVEY TIME AGAIN...

We are launching our performance measurement technology survey, for both vendors and users of systems. Details will be forthcoming. Please join in.

Many firms use the results as a guide for making purchase decisions. The value increases as the number of participants increase.

It won't take you too long to complete, and you'll not only enhance the survey's value, you'll get a complimentary copy of the results!



<http://www.SpauldingGrp.com>

The Journal of Performance Measurement®

UPCOMING ARTICLES

Fixed Income Attribution: The Constant Quest to Explain Residuals

– Bai Gu

Effective Return of Portfolio Positions

– Peter Todd

Mathematics Behind Multi- Level Attribution Keeping Apples and Oranges Separate

– Dmitry Cherkasov

A Modification of the Modified Dietz Approach

– PA Cucurachi, V. Pomante

The Journal Interview

– Joseph McDonagh, CFA

PUZZLE TIME!

June Puzzle

A rich merchant had collected many gold coins. He did not want anybody to know about them. One day, his wife asked, “How many gold coins do we have?”

After pausing a moment, he replied, “Well! If I divide the coins into two unequal numbers, then 26 times the difference between the two numbers equals the difference between the squares of the two numbers.”

The wife looked puzzled. Can you help the merchant’s wife by finding out how many gold coins they have?

We had several folks respond to this one; I guess the opportunity to recall some fundamental algebra was too much to bear.

There are two hints:

$$26(x - y)$$

- we know that “26 times the difference between the two numbers (which are unequal)” equals something, so we can express this side of our equation as:

where

x and y are the unequal values of the two piles of gold coins

- and we know that the amount this is equal to is the difference between the squares of the two numbers:

$$x^2 - y^2$$

And so, our formula is:

$$26(x - y) = x^2 - y^2$$

Chances are that if you didn’t do well in algebra or don’t recall some of the rules you won’t be successful. The key thing for you to recall is the following relationship:

$$x^2 - y^2 = (x + y)(x - y)$$

I’ll confess that I *thought* this was right, but went through the math to just make sure:

$$(x + y)(x - y) = x^2 + xy - xy - y^2 = x^2 - y^2$$

And so, we can return to our original formula and make some adjustments:

$$26(x + y) = x^2 - y^2$$

$$26(x + y) = (x + y)(x - y)$$

$$26 = \frac{(x + y)(x - y)}{(x + y)}$$

$$26 = x + y$$

ATTRIBUTION *Week*

NOVEMBER 11-15, 2013
an online
 conference event

“The Spaulding Group’s webinars are a cost effective way to train and keep my staff up to date on topics related to performance measurement, attribution, risk and GIPS. The online convenience allows us to train all of our staff without the hassle and expense of travel. It also provides us with an opportunity to get together and ask questions from industry experts that we would not otherwise have access to.”

– Cinda Whitten

*Director of Investment Operations
 at Principal Global Investors*

November 11, 2013 - 11:00 AM (EST) Fundamentals of Performance Attribution

Stephen Campisi, CFA, US Trust

- Learn the Fundamentals of Performance Attribution
- Learn how and why they are important to the overall investment story
- Learn how to begin to translate the story

November 12, 2013 - 11:00 AM (EST) Factor Attribution for Fixed Income

Mary Cait McCarthy, Credit Suisse

November 13, 2013 - 12:00 Noon (EST) Multi-currency Attribution

*John D. Simpson, CIPM,
 The Spaulding Group*

November 14, 2013 - 12:00 Noon (EST) Multi-Factor Attribution

Jose Menchero, Ph.D., CFA, MSCI

November 15, 2013 - 11:00 AM (EST) Transaction vs Holdings Based Attribution

*Dave Spaulding, CIPM
 The Spaulding Group*

I think there may be a temptation to figure out what the values of x and y are, but that isn't what's being asked for; we're asked what the total number of coins is, and since x and y represent the two piles, they total 26, which is the answer!

This reminds me of a word problem that we would have gotten in high school; but, it's been a very long time since high school, so I'm pleased that I can recall at least some of this stuff.

July Puzzle

And so, since this sort of puzzle got a lot of attention, we'll try another:

George tells us that if you add 5 times his age 5 years from now to 6 times his age 6 years from now, you will get 12 times his current age. How old will he be 3 years from now?

HOW TO COMMUNICATE INVESTMENT RESULTS REGISTER TO ATTEND FIRST RATE'S ROADSHOW – HOSTED BY INDUSTRY EXPERT STEPHEN CAMPISI

First Rate is ready to travel to you. They are hosting two cocktail receptions on two days in two different cities.



August 13: Marriott East Side, New York City at 5:45 p.m.

August 14: Le Meridien, Philadelphia at 5:30 p.m.

The presentation, hosted by Intuitive Performance Solutions' Founder and President Stephen Campisi, will explore how to communicate investment results while creating trust and long lasting relationships. The presentation will cover a significant number of topics including:

- Finding sources of competitive advantage through better use of communication
- Understanding a client's perspective on risk
- Making the most of investment reporting
- Establishing reasonable client expectations for performance reporting
- Bringing the stewardship approach to the investment process

Please view First Rate's [Roadshow Events Page](#) to find out more information and register to attend one or both of these events. For additional questions, please contact Emily Harvell at eharvell@FirstRate.com.

THE SPAULDING GROUP'S 2013 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
August 19-20, 2013	CIPM Principles Exam Preparation	Chicago, IL (USA)
August 21-23, 2013	CIPM Expert Exam Preparation	Chicago, IL (USA)
September 18, 2013	Portfolio Risk	Boston, MA (USA)
September 24-25, 2013	Fundamentals of Performance Measurement Training	Vancouver, BC, Canada
September 26-27, 2013	Performance Measurement Attribution Training	Vancouver, BC, Canada
October 22-23, 2013	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 24-25, 2013	Performance Measurement Attribution Training	Chicago, IL (USA)
November 7-8, 2013	Performance Measurement Forum	Lisbon, Portugal
November 19-20, 2013	Fundamentals of Performance Measurement Training	Boston, MA (USA)
November 21-22, 2013	Performance Measurement Attribution Training	Boston, MA (USA)
December 5-6, 2013	Performance Measurement Forum	Orlando, FL (USA)
December 10-11, 2013	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 12-13, 2013	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2013 events, please contact Christopher Spaulding at 732-873-5700

The Journal of Performance Measurement has begun a series on performance measurement professionals, and we need your help to identify the folks we should include. We focus on one or two people in each issue, with the list driven by input from other PMPs.

And so, please contact our editor, [Doug Spaulding](mailto:doug.spaulding@spauldinggroup.com) (732-873-5700) with your suggestions.

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

Phone: 1-732-873-5700

Fax: 1-732-873-3997

E-mail: 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 Fundamentals of Performance Measurement on these dates:

Sept. 24-25, 2013 – Vancouver, BC, Canada
October 22-23, 2013 – Chicago, IL

November 19-20, 2013 – Boston, MA
December 10-11, 2013 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



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:

Sept. 26-27, 2013 – Vancouver, BC, Canada
October 24-25, 2013 – Chicago, IL

November 21-22, 2013 – Boston, MA
December 12-13, 2013 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



PORTFOLIO RISK MEASUREMENT

This class is intended for investment professionals who would like to gain a better understanding of investment risk as it pertains to portfolio risk reporting, as well as its use in predicting results.

Sept. 18, 2013 – Boston, MA

CFA Institute has approved this program, offered by The Spaulding Group, for 8 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



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.

CIPM PREP TRAINING: August 19-20, 2013 – Principles Level (Chicago, IL)
August 21, 22 & 23 – Expert Level (Chicago, IL)

UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit 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.

