

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

MORE ON MY GIPS WISH LIST

Last month I began a list of changes I'd like to be made to the Global Investment Performance Standards (GIPS®). As I noted in a recent blog post, there's a rumor (or if you prefer, rumour) afoot that there may not be a revised 2015 edition; that, to me, will be unfortunate, as the alternative that's being suggested is that changes will be introduced into guidance statements (GS).



You may recall that the AIMR-PPS® had changes introduced at various times, often through Q&As. This made keeping up with the Standards difficult. With GIPS, we had understood that quinquennially (i.e., every five years) the Standards would be reviewed for possible changes. In my view, the Standards still require such reviews. Granted the last one was massive; perhaps more than should have been done. And perhaps after such an experience the GIPS Executive Committee is reluctant to do yet another review. But to introduce changes through guidance statements will, in my view, only lead to confusion and fail to properly communicate what the changes are.

As I've suggested before, guidance statements should not be used to introduce rules, but rather to provide guidance on the rules. I served on a working group several years ago and we had formulated such a requirement, but apparently the EC decided to not adopt it; they should.

Well, continuing with my list, here are a couple more items that I think we need:

1. Do away with the level of the error correction guidance that requires a disclosure, when it is, by definition, not material. It serves no purpose, as it is, by definition, NOT material. In addition, the GS does not specify *when* this disclosure is to be removed, meaning it lasts forever!
2. Renumber the sections, so that it doesn't begin with a section zero. I don't know whose idea it was, but when the 2005 edition was introduced, someone realized that there should be an entire section before section 1. However, to avoid renumbering (because there was a belief that many were used to what the sections meant) we'd introduce a section 0. Of course, that would also suggest that in the future, if yet another section is needed up front, then it would have to be -1 (minus 1), right? A section zero is unique, I'll give you that, but ideally we should begin with 1, and yes we can all relearn the numbering; it won't be that difficult.

*p.s., **An Update!** We just learned from Iain McAra (of the CFA Institute) at this year's PMAR conference in Philadelphia that there will not be a GIPS 2015. We find this disturbing from a number of perspectives. But putting these aside, why wasn't the public asked their views on this? That is, a simple question: should there be a GIPS 2015? Or, do you feel that there is a need for a revised version of GIPS? Well, we'll do the poll. Please visit <https://wc111.infusionsoft.com/app/form/na15> and share your thoughts. Thanks! We'll announce the results in next month's newsletter.*

<http://www.SpauldingGrp.com>

The Journal of Performance Measurement®

UPCOMING ARTICLES

**High Frequency Equity risk
Attribution and Forecasting**
– Ricky Cooper and Ting Ting Li

**Performance Evaluation
and Prediction**
– Larry Harris

**Combining Attribution
Effects Over Time**
– David Cariño

**A Case for Arithmetic
Attribution**
– Mark David

The Journal Interview
– Phil Page

CLIENT'S CORNER

This is a new section we are launching where we will profile a client and their experiences with The Spaulding Group.



FEEDBACK FROM A CLIENT

We recently sent a few clients “micro” (i.e., smaller than “mini”) surveys to get some feedback on our services. We wanted to share the response we got from Kathleen Seagle.

1 What problem(s) does The Spaulding Group solve for you and your team?

“Finds creative solutions to industry needs, for example the Think Tank.”

2 Why would you choose us over someone else?

“Is there anyone else?! Industry experience and a clear dedication to advancing the knowledge and abilities of practitioners.”

Obviously, we’re very pleased with what Kathleen’s shared, and appreciate her allowing us the opportunity to share it with you.

Kathleen is a Portfolio Analytics Specialist at River Road Asset Management, LLC, an institutional asset management firm based in Louisville, KY. The firm specializes in value-oriented equity investment management. With over \$8 billion in assets, River Road provides institutional separate account and investment sub-advisory services to a broad range of domestic and international clients. River Road’s strategies are available to retail investors through mutual funds offered by Aston Asset Management. River Road is an Aviva Investors company.

Kathleen has been involved in performance measurement for five years. When asked how she got into performance measurement she responded “I got lucky. I took an entry level position at a young firm which allowed me the opportunity to wear different hats. Portfolio Analytics was a good fit for me and I’ve been with the firm since. It’s been a great experience working with so many talented individuals.”

TSG NEWS

I am pleased to announce that Patrick W. Fowler, our COO, has been promoted to President.

Patrick celebrates his 15th anniversary with The Spaulding Group next month, and has been a major contributor to our success. The press release announcing the promotion can be found on our website.¹

¹ See www.spauldinggrp.com/press-release/162-press-release-patrick-w-fowler-promoted-to-president.html.

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](#) (732-873-5700) with your suggestions.

PUZZLE TIME!

I think we had record participation in April's puzzle; thanks to those who joined in. Recall that Anthony Howland submitted it:

What is the next number in the series:

13 - 44 - 88 - 176 - 847 - ?

The solution is to take each number in the series, reverse the digits, and add; and so, we get:

$$\begin{aligned} 13 + 31 &= 44 \\ 44 + 44 &= 88 \\ 88 + 88 &= 176 \\ 176 + 671 &= 847 \\ 847 + 748 &= 1595. \end{aligned}$$

Randy Young gets extra credit, because he revealed an alternative way to solve the problem (in addition to the above solution):

- (1) Start with an initial number (e.g. 13)
- (2) Dissect this number into a first digit and the remaining number (e.g. 1,3)
- (3) Sum the two parts from step 2 (e.g. 1+3=4)
- (4) Multiply #3 by 11 (e.g. 4*11=44)
- (5) Go back to step 1 using #4 as the new number.

When you start with 13, the process looks like this:

$$\begin{aligned} 13: \{\text{sum}(1,3)=4\} * 11 &= 44 \\ 44: \{\text{sum}(4,4)=8\} * 11 &= 88 \\ 88: \{\text{sum}(8,8)=16\} * 11 &= 176 \\ 176: \{\text{sum}(1,76)=77\} * 11 &= 847 \\ 847: \{\text{sum}(8,47)=55\} * 11 &= 605 \\ \text{continuing... } 605: \{\text{sum}(6,05)=11\} * 11 &= 121 \end{aligned}$$

I shared this alternative method with Anthony, who replied: "I am suitably impressed!! They both work and are both entirely consistent so, although I prefer solution 1 (subjectively), I cannot argue that it is any "better" than solution 2. As such, my hat goes off to Randy. My only question would be, once he found a "good" solution, why look for a second one...and then what stopped him looking for a third? Or maybe he still is!! Only a mathematician!!"

May Puzzle

At this year's PMAR (Performance Measurement, Attribution & Risk) conferences, we're introducing Performance Jeopardy, which is based on the television show, which my wife and I are big fans of.

In my opinion, many of the players don't know how to bet during "final jeopardy." In this part of the show, there is a final question that they wager on before seeing it. I'll

Joe Porter	USA
Philip Lawton	USA
Dorian (Randy) Young*	USA
John Lis	Canada
Tom Williams	USA
Debi Rossi	USA
John Allen	USA
Andrew Durkin	UK
Alseny Bah	USA
Jared Modica	USA
Stephen Langone	USA
Joe Kirchmeier	USA
TJ Slavin	USA
Larry Campbell	USA
David Burbank	USA
Adam Nelson	USA
Robert Verity	USA
Brett Bloemendaal	USA
Salil Natu	USA
Bernd Fischer	Germany
Gerard van Breukelen	Netherlands

KEEP THOSE CARDS & LETTERS COMING

We appreciate the e-mails we receive regarding our newsletter. Mostly, 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.

show three scenarios and ask that you explain what amount the player should wager, and explain your rationale. A couple key points:

- Going into the final question, each contestant can wager any portion of the money they've accumulated so far.
- The person with the highest amount wins.
- The person that finishes in second place wins \$2,000 and the person who finishes in third place wins \$1,000.

Answer each question and please, if possible, provide your rationale.

Game #1

Player A: \$14,000

Player B: \$10,000

Player C: \$2,000

How much should Players A and B wager?

Game #2

Player A: \$15,000

Player B: \$2,500

Player C: \$1,000.

How much should B and C wager?

Game #3

Player A: \$15,000

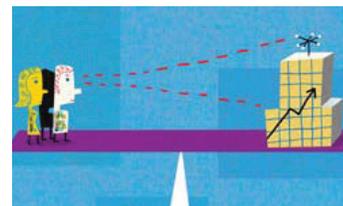
Player B: \$7,500

Player C: \$1,000

How much should A and B wager?

LATE BREAKING NEWS!

As we were *going to press*, we were informed that the CFA Institute has posted the first edition of reporting principles on their website.² Iain McAra informed us at PMAR that this would be occurring shortly.



I have only begun to review this document, so will save my opinions until next month's issue. Please review and share your thoughts with us.³

² http://www.cfainstitute.org/learning/future/about/Pages/principles_for_investment_reporting.aspx

³ Please email me at DSpaulding@SpauldingGrp.com.

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

DATE	EVENT	LOCATION
June 11-12, 2013	PMAR Europe IV	London, England
July 16-17, 2013	Fundamentals of Performance Measurement Training	San Francisco, CA (USA)
July 18-19, 2013	Performance Measurement Attribution Training	San Francisco, CA (USA)
July 23-24, 2013	Fundamentals of Performance Measurement Training	Sydney, Australia
July 25-26, 2013	Performance Measurement Attribution Training	Sydney, Australia
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 19-20, 2013	Fundamentals of Performance Measurement Training	Boston, MA (USA)
November 21-22, 2013	Performance Measurement Attribution Training	Boston, MA (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



*Time Is Running Out
to Register for PMAR
– Register Today!*

Call 732-873-5700

The Journal of Performance Measurement®
In Association with RIMES Technologies

PMAR IV

**Performance Measurement,
Attribution & Risk Conference**

EUROPE

11 - 12 June 2013 – London

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TO REGISTER:

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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:

July 16-17, 2013 – San Francisco, CA
 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:

July 18-19, 2013 – San Francisco, CA
 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

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.

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.

