VOLUME 8 – ISSUE 9 MAY 2011

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

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http://www.SpauldingGrp.com

HOLDINGS VS. TRANSACTION-BASED ATTRIBUTION: DOES IT REALLY MATTER?

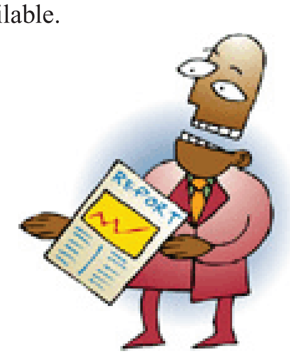
At this month's Performance Measurement, Attribution & Risk Conference (PMAR) in Philadelphia, I gave a presentation on some research I've been doing in looking at differences between employing holdings and transaction-based attribution. To my knowledge, this is the first empirical study to evaluate the methods.

I used the S&P 500 as the index, and created portfolios using randomly selected securities from the index, with the allocation across the ten sectors being equal. I introduced volatility through turnover, with the anticipation that the higher the turnover, the greater the difference in results.

The most important result of this exercise won't, I believe, be the discovery that holdings-based models cause residuals,[1] as this was anticipated. Rather, the reality that the distribution of the excess return using the holdings-based approach across the various effects may not align, in a proportional or other way, to the transaction-based method, and may actually produce contradictory results. This suggests that firms that rely on holdings-based approaches may not only be failing to reconcile, but may be giving out truly erroneous information.

This series of tests is the first of several which I will be undertaking over the coming months. Space here isn't sufficient for me to give the analysis the attention it requires, but a forthcoming article in *The Journal of Performance Measurement*® should suffice.[2] I will provide further details on the subsequent analysis as it's available.

AVOIDING PRESENTATIONS



MyPrivateBanking.com recently posted research findings which showed that "only 10% of the world's most important wealth managers publish performance data for their discretionary accounts."[3]

This is interesting / intriguing from at least two perspectives. First, why not? Second, really?

Why is it, that wealth managers, who exercise discretion over their client assets, fail to provide what the rest of the industry considers *de riguer*?

And, why is it that so many of our wealth management clients do, in fact, provide such results? Where is the disconnect?

1 That is, the inability to reconcile to the excess return.

2 There are also a few, though not many, seats still available for PMAR Europe II in London next month, where I will repeat my presentation.

3 "Wealth Managers Shun Transparency." http://www.myprivatebanking.com/article/myprivatebanking research flash. May 17, 2011.

The Journal of Performance Measurement®:

We are finding increased interest in this segment of the market to become GIPS® (Global Investment Performance Standards) compliant, and so why is it that so many don't even bother giving their clients return details?

LET'S SHOW EQUAL-WEIGHTED RETURNS, TOO!

My colleague, John Simpson, recently pointed out to me that the GIPS standards recommend showing equal-weighted returns; I was mistakenly thinking that showing them would require the inclusion of the "supplemental information" label, but that isn't so. Therefore, I am beginning a campaign to encourage firms to include this return as part of their compliant presentation. And why is this? Because it's better than the asset-weighted requirement.

I blogged about this several months ago,[4] and the topic came up recently with a client who had excluded their mutual funds from their composites because they were concerned that the much larger funds would dominate the composite's results.[5] This is basically what I discovered during a verification, which led to the earlier blog post.

The AIMR-PPS® Implementation committee wrestled with this when the earlier standards were being introduced, almost 20 years ago. They wanted the return to represent a composite, which was to look like an account. But this begs the question, "why?" That is, why should the composite look like an account? Should not the return represent the true results of actual accounts that are managed? No one manages a composite, do they?

In essence, this is just an extension of my earlier argument in opposition to the use of the aggregate method to derive a composite's return,[6] a method that basically treats the composite as an account, which it isn't. To me, the most fundamental point is that *no one manages composites*. The composite represents actual portfolios, and the statistics that are derived should be representative of these accounts.

I wrote an article on the anti-aggregate method argument, and hope to do the same on the asset-weighted composite return, though I will admit that the likelihood of either being abandoned isn't very high. But if more firms include an equal-weighted composite return, along side the asset-weighted one, it will at least give greater attention to this issue. Granted, you're already showing a lot, and adding an optional return is probably not high on your list of things you really want to do, but to me it's a better figure to represent to your prospective clients. This is especially true if your composite contains accounts with a wide range of asset sizes.

4 See http://investmentperformanceguy.blogspot.com/2010/12/rethinking equality.html..

5 In reality, there is no requirement to include funds in the same composite as separate accounts, but that's a different topic.

6 See http://investmentperformanceguy.blogspot.com/2010/12/rethinking equality.html.

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.

EASTER EGG HUNT WINNERS

The winner for the PMAR easter egg hunt is:
Todd Juillerat, CFA, State Street Global Advisors

The winner for the PMAR Europe easter egg hunt is:
Phil Butler, CIPM, Coutts & Company

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THE SPAULDING GROUP'S 2011 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
July 12-13, 2011	Fundamentals of Performance Measurement Training	Toronto, Ontario
July 14-15, 2011	Performance Measurement Attribution Training	Toronto, Ontario
August 22-23, 2011	CIPM™ Principles Exam Preparation Class	New Brunswick, NJ (USA)
August 24-26, 2011	CIPM™ Expert Exam Preparation Class	New Brunswick, NJ (USA)
September 13-14, 2011	Fundamentals of Performance Measurement Training	San Francisco, CA (USA)
September 15-16, 2011	Performance Measurement Attribution Training	San Francisco, CA (USA)
October 11-12, 2011	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 13-14, 2011	Performance Measurement Attribution Training	Chicago, IL (USA)
December 6-7, 2011	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 8-9, 2011	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2011 events, please contact Christopher Spaulding at 732-873-5700

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The Journal of Performance Measurement®
In Association with RIMES Technologies

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EUROPE

14 - 15 June 2011 – London

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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 12-13, 2011 – Toronto, Ontario
September 13-14, 2011 – San Francisco, CA
October 11-12, 2011 – Chicago, IL
December 6-7, 2011 – 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.

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September 15-16, 2011 – San Francisco, CA
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CFA INSTITUTE PROFESSIONAL DEVELOPMENT QUALIFIED ACTIVITY 12 CREDIT HOURS

IN-HOUSE TRAINING

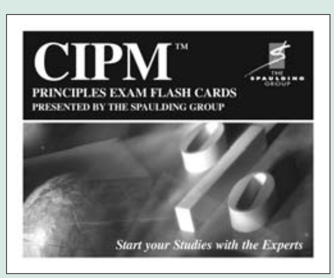
The Spaulding Group has offered in-house training to our clients since 1995. Beginning in 1998, we formalized our training, first with our Introduction to Performance Measurement class and later with our Performance Measurement Attribution class. We now also offer training for the CIPM program. To date, 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 of transporting their staff to our training location and limits their time away from the office. With the discounted 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 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.



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