

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 18 – ISSUE 6

JUNE 2022

Since 1990, The Spaulding Group, Inc., an employee-owned business, has had an increasing presence in the money management industry.

The Spaulding Group, Inc. is the fastest-growing verification firm, serving clients around the globe, with assets ranging from less than \$100 million to more than \$1 trillion. We provide an array of other performance measurement services and products, including consulting, publishing (*The Journal of Performance Measurement*®), research, and training. We also host the Performance Measurement Forum, the Asset Owners' Round Table, and the Annual PMAR™ Conferences.

We are actively involved as members of the CFA Institute and other industry groups. The Spaulding Group has also led the charge for the industry in the handling of error correction, attribution guidelines/ standards, and Investment Performance Measurement Analyst Certification (since handed over to the CFA Institute and now called the CIPM program).

Several of our senior staff regularly speak at and/or chairs industry conferences. Our founder and CEO, David Spaulding, is a frequent author and source of information to various industry publications. Our firm continues to make huge contributions to our industry, in terms of valuable content, innovative ideas, and volunteer activities.

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

<http://www.SpauldingGrp.com>

Why we don't report performance this way

The May 17, 2022 *Wall Street Journal* had an article titled “Buffett Buys Stocks as Markets Fall,” by Akane Otani. I wrote about the article's shortcomings in a LinkedIn post.^{1,2}

I was once again disappointed in the WSJ for representing performance in such a misleading manner.³



The author's reported returns were based on an SEC report [13-F] that firms must report quarterly. Berkshire Hathaway apparently just sent their report in. These reports are public information, so easily obtainable by the author.

These reports simply tell us the shares of public stocks a manager owned as of quarter-end. And for most managers, the 13-F represents holdings across multiple accounts and strategies, such that it likely does not reflect any individual account or strategy.

There was an analytics firm several years ago that would use these 13-F reports to determine the performance of thousands of managers.

This is essentially a holdings-based report that makes a lot of assumptions. If we take the fourth quarter 2021 report, we know what a firm held as of December 31, 2021. If we assume the company held those same stocks as of March 31, 2022, we can calculate a return.

This is what the author seemed to do. However, what are the limitations?

- no cash is included and, as the article mentions, Buffet “has a lot of it.”
- we are not aware of any transactions that took place. So any intraperiod purchases and sales are simply ignored.
- no mention is made of non-public stocks, bonds, or other assets.
- dividends are ignored.

The report serves a valuable purpose, as the SEC will know the sizes of positions managers have in public companies. However, to calculate returns based solely on what someone held at year-end, ignoring the items above, suggests that it would be very unwise indeed.

The article is clearly biased, as it points out the success of two of Buffett's energy stocks (Occidental Petroleum, that was up 134% year-to-date and Chevron, up 47%), but fails to mention how his largest position (Apple) was down more than 18% for the year.

The Journal of Performance Measurement®

UPCOMING SPRING ISSUE

Climate Risk and Carbon
Neutral Performance Attribution
- Philippe Grégoire, Ph.D.,
University of Louvain

The Spaulding Group's
2022 GIPS® Composite
Systems Survey Results
- David Spaulding, DPS, CIPM,
The Spaulding Group

Fund Evaluation from a
Portfolio Perspective: A Guide
to Asset Owner Performance
- Stephen Campisi, CFA
The Pensar Group

The Roundtable Interview -
A Discussion of the GIPS®
Composite Systems Survey
Results

ESG Integration- Sustainable
investing techniques and implications
for performance professionals
- Gustavo Bernal-Torres, CFA
Invartis Consulting

PLEASE SEE OUR LATEST
ISSUE:

<https://spauldinggrp.com/free-journal-of-performance-measurement/>

Presumably, the article was about Buffett taking advantage of price drops to increase positions in a variety of stocks; if that was all it discussed, it would have been fine. But, the author couldn't help celebrating a couple successes, while totally ignoring the not-so-good results.

NO: this is NOT how we calculate performance. The WSJ does a disservice to investors and the public by offering such misleading pieces.

Endnotes

1. See <https://www.linkedin.com/feed/update/urn:li:activity:6932472695058038784/>
The text:

“Warren Buffet’s recent investment successes ... or perhaps, not, is celebrated in today’s The Wall Street Journal.

“This article is interesting, but possibly a tad [or more than a tad] misleading, too. It shares in a detailed graph, the YTD performance of Occidental Petroleum (134%) and Chevron (47%), two stocks Buffet has increased positions in this year, vs. the S&P 500 (-16%).

“First, the *Journal* cites Berkshire Hathaway’s SEC Form 13-F for the first quarter; it tells us what the firm owned as of March 31, 2022. If we ASSUME the holdings remained the same through yesterday, we can derive a holdings-based return from the start of the year [by using the firm’s 4th Quarter 2021 13-F].

“There used to be a firm that reported manager performance using the 13-F reports, and I worked for one in the 1980s who was touted as being the #1 manager for the year [you can imagine how we leveraged this proclamation]. And for years, the WSJ would devote a fair amount of attention to this firm’s findings. But the 13-F fails to take into account intra-period transactions [the details of the tens of billions of dollars of purchases made in the past couple months lack specific amounts, timing, and pricing], doesn’t include cash [which the article mentions “he has a lot of”], ignores dividends, and makes some pretty bold assumptions, such as the one noted earlier.

“The author notes that as with the two energy companies cited above, Buffett also increased his stake in Apple, “its biggest stockholding.” Odd, isn’t it, that despite it being such a large part of Berkshire Hathaway’s holdings, the author failed to mention that Apple was down more than 18 percent for the year [sinking from 177.57 at year end to 145.54 yesterday].

“So, what’s the point of this article? To once again tout Buffett’s investment acumen [something the WSJ has done before in a similar misleading way] or remind us that reliance on the very limited 13-F report for any conclusive evidence of success is to be done with great caution? If only the author had mentioned this.”

2. I also submitted a Letter to the Editor with the same text; it was not, as far as I know, published.



What our clients think about us

The Spaulding Group, Inc. (TSG) released its customer loyalty survey with a Net Promoter Score (NPS) score of 93% promoters.* This outstanding score demonstrates The Spaulding Group's dedication to delivering exceptional customer outcomes, efficient verifications, and great service. NPS is an index ranging from 0 to 10 that measures the willingness of customers to recommend a company's products and services. It is a way to measure clients' overall satisfaction and their loyalty to the firm's brand.

** The NPS Calculation: Total % of promoters – total % of detractors = net promoter score*

<https://spauldinggrp.com/gips-customer-loyalty/>

We Are Performance™



3. The *Journal* did a piece several years after the '08/'09 crisis that focused solely on the dollar increases in stocks Buffett purchased during those years; they only looked at dollar gains which were admittedly massive. But, of course, we're talking about Billions of dollars being invested: what do we expect? I calculated the returns on several of these stocks and found that Buffett had underperformed the S&P 500. Unfortunately, I failed to keep that particular article as it, too, is a great example of how not to calculate and report performance.

THE SPAULDING GROUP'S 2022
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
June 16-17, 2022	EMEA Meeting of the Performance Measurement Forum	Amsterdam, The Netherlands
November 10-11, 2022	EMEA Meeting of the Performance Measurement Forum	London, England
November 15-16, 2022	Fundamentals of Performance Measurement Training Class	San Diego, CA
November 16, 2022	Asset Owner Roundtable Meeting	San Diego, CA
November 16, 2022	Broker/Dealer Symposium – First Meeting	San Diego, CA
November 17-18, 2022	North American Meeting of the Performance Measurement Forum	San Diego, CA

For additional information on any of our 2022 events, please contact Patrick Fowler at 732-873-5700.

Train Your Entire Performance staff for half price!



HERE'S THE PROBLEM

Your staff needs training in performance, risk, attribution, or the GIPS® standards, but you're not able to give them the training they need.

HERE'S THE REASON

Your training budget isn't big enough to cover the expense to send your entire team to offsite training. And, even if it was, you can't have your entire team offsite at the same time.

THIS MEANS

Either you have to take the time to create a program internally and continually update it, which is time and labor intensive, or your team is forced to learn what they need on the job, which means they aren't adding as much value as they could.

WE HAVE THE SOLUTION

- ✓ Reduced tuition (save nearly \$850 per student!)
- ✓ No staff travel expenses
- ✓ No time away from the office
- ✓ Option to customize a class to your firm's needs
- ✓ Scheduling flexibility—You choose the dates
- ✓ Save on development time/costs. We've done the work for you and, we regularly update the materials!
- ✓ Peace of mind—Indispensable staff get the training, yet are still accessible should you need them
- ✓ Improved morale, investing in your staff shows them your commitment



It's hard to find such focused training around the topic of performance measurement along with experienced instructors who can get into the details of various calculations. I recommend this two-day training course for firms looking to provide a good foundation on this topic." – Rajiv Mathur, Kaiser Permanente

TO LEARN MORE, PLEASE CONTACT:

Patrick Fowler, 732-873-5700
PFowler@SpauldingGrp.com

AVAILABLE CLASSES:

- ✓ Fundamentals of Performance Measurement
- ✓ Performance Measurement Attribution
- ✓ Portfolio Risk Measurement
- ✓ GIPS standards workshop
- ✓ Investment Performance Measurement Boot Camp
- ✓ Performance Measurement for Non-Performance Professionals
- ✓ Performance Measurement for Plan Sponsors and Consultants
- ✓ Or, customize a class to meet your specific needs

More than 4,000 individuals from hundreds of firms have attended our training classes. Many firms bring us in-house for annual training and in-house updates. Firms who have benefits from training include:

- ✓ State Street
- ✓ Fidelity
- ✓ T. Rowe Price
- ✓ Grantham Mayo Von Otterloo
- ✓ Prudential
- ✓ Morgan Stanley
- ✓ Principal Global Investors
- ✓ LPL
- ✓ UBS
- ✓ Pershing
- ✓ Franklin Templeton
- ✓ Aegon
- ✓ World Bank
- ✓ Northern Trust
- ✓ Goldman Sachs
- ✓ AIMCO
- ✓ Credit Suisse
- ✓ FIServ
- ✓ AllState
- ✓ BNY Mellon
- ✓ Abu Dhabi Inv. Authority
- ✓ Queensland Inv. Authority



Performance Training Resources

Visit Us Online @
www.SpauldingGrp.com

We Are Performance™

An institutionally recognized boutique performance measurement consulting and GIPS® standards specialist firm serving the investment industry

Somerset, NJ • Malibu, CA • Denver, CO • Washington, DC • Louisville, KY • Naples, FL

GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content herein.

