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

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http://www.SpauldingGrp.com

CGIPS™ CERTIFICATION

John Simpson and I have been working on our upcoming "prep" classes for the CGIPS examination. The first round will be this coming March/April. We have been extremely impressed with the way the CFA Institute has organized the materials. The site is easy to navigate and there's quite a bit of background and supporting documentation available.

If you're like us, you'll find some new items there, too. For example, the concept of "Macro Attribution" was new to us.

We encourage anyone who considers themselves a Performance Measurement Professional to sign up. As you may recall, we initiated the idea of a formal certification program and therefore (obviously) support what Philip Lawton and the CFA Institute are doing.

COMPOSITE STANDARD DEVIATION

How to calculate a composite's standard deviation? It may be obvious to you, but it isn't to everyone else.

Account	Present full year?	Return		Portfolio ROR - Composite ROR	ROR Variance Squared
1	Yes	3.1%		-1.2%	0.0144%
2	Yes	4.2%		-0.1%	0.0001%
3	Yes	4.3%		0.0%	0.0000%
4	Yes	4.6%		0.3%	0.0009%
5	Yes	3.8%		-0.5%	0.0025%
6	Yes	3.7%		-0.6%	0.0036%
7	Yes	4.1%		-0.2%	0.0004%
8	No		Sum of squares =		0.0219%
9	No		Divide by "n" (7)		0.0031%
10	No		Take the square root:		0.56%
Composite ROR =		4.3%	**Standard Deviation =**		**0.56%**
Standard Dev =		**0.45%**			

The accompanying table shows the composite data we'll use to discuss the two approaches to calculating a composite's standard deviation. You'll notice that there are ten accounts in the composite, but that only seven are present for the full year. Therefore, we only use these account's annual returns in the standard deviation formula. You'll also note that we provide the composite's asset-weighted return (4.3%).

The Journal of Performance Measurement®:

A common way to calculate the standard deviation is to use the Excel function, STDEVP. We show this in the green shaded cells and you can see that our result is 0.45%. Another approach is to calculate the standard deviation manually; this is shown in the yellow boxes, with the result of 0.56%.

You should now be wondering, "how come we have two different answers?" Well, it's quite simple. The first (0.45%) measures the dispersion of the seven account returns around their average; that is, the dispersion about the average of these seven numbers, which happens to be 4.0 percent. The second value is derived by finding the standard deviation of the seven accounts relative to the composite's average of 4.3 percent.

So, which is correct?

Well, I'd say technically that the second is more appropriate, since we're supposed to be reporting the composite's dispersion. Since the composite's return is 4.3%, shouldn't we be showing the dispersion around this value? To show it relative to 4.0% is to report a dispersion around a subset of the composite, made up of these seven accounts. Since the composite's annual return was the result of more than just these seven values, this seems to make more sense. I'm sure someone could come up with a reason justifying the first approach over the second.

The reality is that both methods are acceptable. The key is to (a) be consistent and (b) document how you do this. Please recall that there's a new disclosure requirement: that additional information regarding policies for calculating and reporting returns is available upon request (paragraph 4.A.17 of the February 2005 GIPS standards). I'd recommend including the way you derive standard deviation (or whatever dispersion method you use) within this material.

What about asset-weighted standard deviation?

Perhaps you recall that at one time the CFA Institute was pushing an asset-weighted standard deviation, rationalizing that since the returns are asset-weighted, shouldn't the dispersion measure be, too? Well, this method, although not technically dropped, seems to have been less enthusiastically supported the past few years. If you use it, fine. If you aren't and are using an equal-weighted method (such as what is shown above), that's fine too.

COMPOSITE BENCHMARKS

A question that is occasionally asked: Can the benchmark associated with the GIPS® composite change? The answer: Yes! But, you should have a good reason for this.

We had a discussion recently with a US Equity Large Cap Growth manager who said that they had historically used the S&P 500 as their index, but noticed that for the past few years it wasn't as good. No wonder! Five years ago, the growth style was beating up the broad S&P, but once it fell out of favor, it wasn't looking so good. The reality is that the appropriate index all along was a style index like the S&P Growth.

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.

If you change an index, you don't go back and alter history (*i.e.*, you keep the original index). You should also disclose the change(s). A reason not to change an index is because you're trying to consistently beat the index. In other words, the following wouldn't be appropriate: "Indexes can vary over time, depending on performance." Sorry.

WHERE'S MY FALL ISSUE?

You may have noticed that (a) it's Winter time and (b) the Fall (Autumn, for our European friends) issue of *The Journal of Performance Measurement*® hasn't arrived yet. Our apologies. There have been a series of issues which have arisen to slow us down.

Our editor Sabina T. Hastings has been on a full-time consulting assignment for the past few months, meaning that she's been forced to do her editorial duties after hours. While we greatly appreciate Sabina's dedication and her willingness to do double-duty, you can imagine how this might have created some delays. In addition, at the point we delivered the journal to the printer, they were embarking on their Christmas break. When they returned, they rushed to get the job done, but there were problems at the bindery, which slowed us down a bit more. The journals finally arrived today, but, we discovered a problem with the delivered product, which can't be corrected without a complete reprint. So, we'll probably have yet another two-week delay. Our goal is to have the journals out by month-end. Sorry for this. We promise to do better with the Winter issue.

TSG PEOPLE

If you check out our website (www.SpauldingGrp.com) you'll notice that we've added a new item on our homepage, which points you to us…that is to us, individually. Brief bios of our key staff are shown. While this is typical with lots of firms, it took us awhile to get around to doing this.

THE SPAULDING GROUP'S 2005-2006 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION	DEADLINE
January 23-24	CGIPS Preparatory Training	New York, NY (USA)	January 16, 2006
January 23-24	CGIPS Preparatory Training	Los Angeles, CA (USA)	January 16, 2006
January 26-27	CGIPS Preparatory Training	Boston, MA (USA)	January 19, 2006
January 26-27	CGIPS Preparatory Training	Chicago, IL (USA)	January 19, 2006
January 30-31	CGIPS Preparatory Training	London, England	January 23, 2006
February 14-15	Introduction to Performance Measurement Training	New York, NY (USA)	February 7, 2006
February 16-17	Performance Measurement Attribution Training	New York, NY (USA)	February 7, 2006
March 14-15	Introduction to Performance Measurement Training	Boston, MA (USA)	March 7, 2006
March 16-17	Performance Measurement Attribution Training	Boston, MA (USA)	March 7, 2006
March 21-22	Introduction to Performance Measurement Training	San Francisco, CA (USA)	March 19, 2006
March 23-24	Performance Measurement Attribution Training	San Francisco, CA (USA)	March 19, 2006
April 4-5	Introduction to Performance Measurement Training	Somerset, NJ (USA)	March 31, 2006
April 6-7	Performance Measurement Attribution Training	Somerset, NJ (USA)	March 31, 2006
April 27-28	Performance Measurement Forum	Scottsdale, AZ (USA)	April 24, 2006
May 9-10	Introduction to Performance Measurement Training	London, England	May 2, 2006
May 11-12	Performance Measurement Attribution Training	London, England	May 2, 2006
May 22-23	Performance Measurement, Attribution, & Risk Conference	Philadelphia, PA (USA)	May 19, 2006
June 15-16	Performance Measurement Forum	Europe	June 9, 2006
June 20-21	Introduction to Performance Measurement Training	Vancouver, Canada	June 13, 2006
June 22-23	Performance Measurement Attribution Training	Vancouver, Canada	June 13, 2006
June 27-28	Introduction to Performance Measurement Training	Paris, France	June 20, 2006
June 29-30	Performance Measurement Attribution Training	Paris, France	June 20, 2006
July 11-12	Introduction to Performance Measurement Training	Chicago, IL (USA)	July 5, 2006
July 13-14	Performance Measurement Attribution Training	Chicago, IL (USA)	July 5, 2006

For Additional information on any of our 2005-2006 events, please contact Christopher Spaulding at 732-873-5700

Save the Date!

The Journal of Performance Measurement®
Fourth Annual International

PMAR

Performance Measurement,
Attribution & Risk

Conference

May 22nd - 23rd, 2006

TRAINING…

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

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

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:

February 14-15, 2006 – New York, NY
March 14-15, 2006 – Boston, MA
March 21-22, 2006 – San Francisco, CA
April 4-5, 2006 – Somerset, NJ
May 9-10, 2006 – London, England
June 20-21, 2006 – Vancouver, Canada
June 27-28, 2006 – Paris, France
July 11-12, 2006 – Chicago, IL

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:

February 16-17, 2006 – New York, NY
March 16-17, 2006 – Boston, MA
March 23-24, 2006 – San Francisco, CA
April 6-7, 2006 – Somerset, NJ
May 11-12, 2006 – London, England
June 22-23, 2006 – Vancouver, Canada
June 29-30, 2006 – Paris, France
July 13-14, 2006 – Chicago, IL

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

CGIPS PRINCIPLES EXAM PREPARATION

The two-day CGIPS Principles Exam Preparation class will provide you with a solid foundation for your formal study of the CGIPS Principles Exam. It will also help you identify any areas in your performance background that might need reinforcement. The earlier you commit yourself, the greater the probability of success.

January 23-24, 2006 – New York, NY
January 23-24, 2006 – Los Angeles, CA
January 26-27, 2006 – Boston, MA
January 26-27, 2006 – Chicago, IL
January 30-31, 2006 – London, England