

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 10 – ISSUE 5

JANUARY 2013

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

A NEW YEAR: TIME FOR SOME REFLECTION?

In the past I used to spend a few days planning what I wanted to accomplish whenever a new year was beginning. Sadly, I haven't been as disciplined of late, but will allocate some time to do just that shortly.

This being a new year, it's worth thinking about where we are relative to where we thought we'd be. Also, perhaps a good time to do a "self-assessment." Are we performing as we wish, for example.



Another newsletter writer recently wrote that he didn't worry about who he offended, repelled, or failed to interest. In fact, he stated that he was pretty clear on who he wanted to offend, repel, or not interest. While I never intend to offend or repel, realize that some of what I write doesn't always sit well with some readers; sometimes consciously, but more often, unconsciously. That is, there are times when I may write something knowing that some folks will not like it, but more often it's been the case that folks didn't like it, and I was surprised by their reaction. I never try to offend, either consciously or unconsciously; there is no need for that. Someone may not like what I write, which is perfectly fine, but there is no reason to purposefully be offensive.

There's a song titled "Let's Give 'Em Something To Talk About." Well, in a way that's my goal: to give performance measurement professionals something to think and talk about. Agree with me or not, hopefully I at least stir some interest.

I learned a long time ago that there is no such thing as writing; just rewriting, meaning that it is incorrect to expect to put one's thoughts down on paper without taking the time to edit, and re-edit, and re-edit again. I try hard to "wordsmith" my compositions so that they get the meaning across in the best way possible.

I recently penned something on Facebook, which received a lot of "likes" from my Facebook friends. But one took the time to write a response, and it was evident that she wasn't pleased with my composition. I won't repeat it here, because there is no need and it's on a totally unrelated topic. I used the word "incarcerate," when perhaps "institutionalize" would have worked better. My meaning was clear to me, and perhaps to most other readers, but not to everyone.

I am of the belief that we should "stand for something." I am passionate about the field we work in, and have loads of opinions. I like sharing my views, knowing that not everyone will agree. Sometimes this is done to try to alter folks' views, while at others it's to stir up some discussion. There are times in meetings or at a conference when I'll ask a question, knowing the answer, but wanting to engage the speaker and get others involved.

Ours is not an industry where it pays to sit on the sidelines, not being engaged: there is too much going on, and what we do is of too great an importance for the firms we work for or with, as well as the industry at large.

<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

TAKING A LESSON FROM CERVANTES

In a blog post¹ earlier this month, I referenced details that Don Quixote provided, when asked about the qualities of a knight errant. I'll repeat it here:

“That of Knight Errantry, which is as good as poetry, and a finger or two above it. It is a science that comprehends within itself, all or most of the sciences in the world. For he who professes it must be a jurist, and must know the rules of justice; distributive and equitable, so as to give each one what belongs to him and is due to him. He must be a theologian, so as to give a clear and distinctive reason for the Christian faith he professes, wherever it may be asked of him. He must be a physician, and above all a herbalist, so as in wastes and solitudes to know the herbs that have the property of healing wounds, for a knight errant must not go looking for someone to cure him at every step. He must be an astronomer, so as to know by the stars how many hours of the night have passed and what climate and quarter of the world he is in. He must know mathematics, for at every turn, some occasion will present itself to him. And, putting it aside that he must be adorned with all the virtues, cardinal and theological, to come down to minor particulars. He must, I say, be able to swim as well as Nicholas or Nicolau the fish could, as the story goes. He must know how to shoe a horse, and repair his saddle and bridle. And, to return to higher matters, he must be faithful to God and to his lady. He must be pure in thought, decorous in words, generous in works, valiant in deeds, patient in suffering, compassionate towards the needy, and lastly, an upholder of the truth, though its defense should cost him his life. Of all these qualities, great and small, is a true knight errant made of.”



The challenge for us is to offer a similarly detailed description of a performance measurement professional. Let's consider this for the moment, a “work in progress,” as I invite recommendations from our readers. Here's my first attempt:

A performance measurement professional should possess a broad array of traits, skills and knowledge. He should be educated in mathematics; and while it is not necessary that he have a degree in math, especially given that performance measurement usually only requires algebra, having a more extensive background than a typical high school graduate means that he has been exposed to the more esoteric and challenging areas of the subject, which help expand the brain's ability to think and comprehend. She must have strong analytical skills, with the ability, desire, and comfort at delving into problems to uncover solutions or causes. He must be a disciplined ethicist, who is not willing to allow others to sway him from what he knows to be the right way to operate, to not cave in to those who might want to make adjustments to marketing materials, when such adjustments would conflict with industry standards and regulations, as this would not only jeopardize himself, but also the firm he works for. She must be open minded, and willing to consider adopting new methods, when they may prove to be better than the old ones she previously employed; she should not be wedded to formulas or techniques merely because “that's the way we've always done it.” He must be skilled at communicating,

¹ <http://www.investmentperformanceguy.blogspot.com/2013/01/learning-from-cervantes.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.

PERFORMANCE MEASUREMENT HALL OF FAME

The Summer issue of *The Journal of Performance Measurement*[®] announced that we are seeking nominations for the Performance Measurement Hall of Fame. We credit our friend and colleague, Tim Ryan, for this suggestion.

The Journal's advisory board will vote on membership. We expect the "inaugural class" to consist of five to ten names. The inductees will be announced in our Winter issue.

We thank Tim for thinking of this idea and for suggesting that we create the Hall.

Your suggestions and ideas are also invited.

both in writing as well as verbally, so as to be able to engage in discourse with his superiors, colleagues, other executives, and clients, as well as regulators, should the need arise, with the ability to clearly explain methods used, and why the results may not always make sense; for example, when employing a time-weighted method that produces a positive return when the client lost money. She must be passionate about the field she has chosen to work in, desiring to grow in knowledge and understanding. He must be supportive of the profession, championing its role within the investment industry, and when occasion arises, to seek ways to better its reputation, as well as the reputation of those who have excelled at it.

Please let me know what you think!

OUR MONTHLY PUZZLE

You probably noticed that we skipped a puzzle in December: Sorry.

Before we introduce January's let's look at November's.

There are four people who need to cross a bridge in the middle of the night. The bridge is structurally weak and can only hold two people at a time. There is only one flashlight amongst the four people and it is impossible to cross the bridge without one since it is so dark outside. Each person can cross the bridge at different speeds as follows:

Person A can cross the bridge in 1 minute.

Person B can cross the bridge in 2 minutes.

Person C can cross the bridge in 5 minutes.

Person D can cross the bridge in 10 minutes.

The group decides to have two people go over, have someone come back with the flashlight (you can't throw it back), two more go over, etc. until all four get to the other side safely. When a pair goes over, they can only go as fast as the slowest person in that pair.

How fast can all four men get over the bridge and how should they be paired to do so?

This puzzle was much more challenging than one might have thought; it threw me.

Many saw it as a rather simple exercise, which I can summarize as follows:

- 1 will traverse the bridge each time,
- taking in, whatever order 1 wishes, 10, 5, and 2.
- and so, the trips going across from the starting point will take $10 + 5 + 2$ minutes, = 17.
- Since 1 must return twice to retrieve someone, add two more reverse trips, of 1 each, for a total of 19.

Simple, easy, without much difficulty whatsoever. But also, sadly, wrong! The right solution:

- 1 & 2 go across. (2 minutes)
- 2 returns (2 minutes)
- 10 & 5 go across (10 minutes)
- 1 returns (1 minute)
- 1 & 2 go across (2 minutes)

Total time = $2 + 2 + 10 + 1 + 2 = 17$ minutes!

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.

We had a lot more folks get this wrong than got it right; only three individuals, all from the UK, got it correct:

- Anthony Howland
- Andrew Durkin
- Phil Butler

Congrats to our winners, and thanks to all who joined in.

January puzzle

This month's puzzle was sent in by Frank Holmberg, of Nykredit (Copenhagen):

1
11
21
1211
111221
312211
13112221

What's the next number?

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today to take
advantage
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THE SPAULDING GROUP'S 2013 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
February 11-12, 2013	Fundamentals of Performance Measurement Training	Los Angeles, CA (USA)
February 13-14, 2013	Performance Measurement Attribution Training	Los Angeles, CA (USA)
March 11-12, 2013	Fundamentals of Performance Measurement Training	Boston, MA (USA)
March 13, 2013	Portfolio Risk	Boston, MA (USA)
March 14-15, 2013	Performance Measurement Attribution Training	Boston, MA (USA)
March 18-19, 2013	CIPM Principles Exam Preparation	New Brunswick, NJ (USA)
March 20-22, 2013	CIPM Expert Exam Preparation	New Brunswick, NJ (USA)
April 15, 2013	Fundamentals of GIPS Workshop	Toronto, ON, Canada
April 16-17, 2013	Fundamentals of Performance Measurement Training	Toronto, ON, Canada
April 18-19, 2013	Performance Measurement Attribution Training	Toronto, ON, Canada
May 14-15, 2013	Fundamentals of Performance Measurement Training	Philadelphia, PA
May 15, 2013	Fundamentals of GIPS Workshop	Philadelphia, PA
May 16-17, 2013	PMAR XI	Philadelphia, PA
May 25, 2013	Performance Measurement For Non-Performance Professionals	San Francisco, CA (USA)
June 10, 2013	Fundamentals of GIPS Workshop	London, England
June 11-12, 2013	PMAR Europe IV	London, England
June 13-14, 2013	Fundamentals of Performance Measurement Training	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 22, 2013	Fundamentals of GIPS Workshop	Sydney, Australia
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 23, 2013	Fundamentals of GIPS Workshop	Vancouver, BC, Canada
September 24-25, 2013	Fundamentals of Performance Measurement Training	Vancouver, BC, Canada
September 26-27, 2013	Performance Measurement Attribution Training	Vancouver, BC, Canada
October 21, 2013	Fundamentals of GIPS Workshop	London, England
October 22-23, 2013	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 24-25, 2013	Performance Measurement Attribution Training	Chicago, IL (USA)
November 18, 2013	Fundamentals of GIPS Workshop	Boston, MA (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

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

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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:

February 11-12, 2013 – Los Angeles, CA

March 11-12, 2013 – Boston, MA

April 16-17, 2013 – Toronto, ON, Canada

May 14-15, 2013 – Philadelphia, PA

June 13-14, 2013 – London, England

July 16-17, 2013 – San Francisco, CA

July 23-24, 2013 – Sydney, Australia

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

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.



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:

February 13-14, 2013 – Los Angeles, CA

March 14-15, 2013 – Boston, MA

April 18-19, 2013 – Toronto, ON, Canada

July 18-19, 2013 – San Francisco, CA

July 25-26, 2013 – Sydney, Australia

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

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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).

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