VOLUME 7 – ISSUE 7 MARCH 2010

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

PERFORMANCE IS SO EASY, ANYONE CAN DO IT…

It is interesting how some individuals approach return measurement. Rather than take advantage of the countless sources available, some folks decide to come up with their own methodologies. And often, they're arrived at after much thought and reflection. However, more often than not, they're wrong!

Here's an example. An investor's strategy involves three asset classes. After deriving a period's returns the manager simply added the results together. While I've seen people add period returns together to link them (i.e., arithmetic linking), which of course is invalid, I don't recall seeing individual asset class returns together. An example:

- Equities: $1,000 invested; return = 20%
- Bonds: $1,000,000 invested; return = 2%
- Cash: $100,000 invested; return = 0.5%.

Portfolio return = 20% + 2% + 0.5% = 22.5 percent.

Even worse, imagine:

- Equities: $1,000 invested; return = 20%
- Bonds: $1,000,000 invested; return = -10%
- Cash: $100,000 invested; return = 0.5%.

Overall we lost money, right? But using this approach our return is 20% + (-10%) + 0.5% = 10.5 percent.

If you've seen interesting and creative ways to calculate returns, please share!

EARLY ADOPTION OF GIPS 2010

I have it on good authority that a "Q&A" will be forthcoming to explain how firms can adopt the new provisions in GIPS 2010 in advance of the January 1, 2011 effective date. We'll provide you details once we have them.

Todd Juillerat, a member of the GIPS Executive Committee (EC) responded to my suggestion in our last issue that early adoption wasn't being encouraged:

Earlier today I read the February edition of your newsletter, which I continue to believe serves a good and informative place in the industry. There seems to always be something in each issue which is thought-provoking.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

I feel compelled to refute the point about there not being a statement whereby the EC encourages early adoption of GIPS 2010. You're technically correct – it's not embedded within the document itself, where some would consider it out of place and over time would in fact become dated. But it is clearly within the first section of the press release which communicated the new GIPS standards to the industry ("Firms that claim compliance with the GIPS standards have until 1 January 2011 to adhere to the new requirements, and early adoption is recommended"). http://www.gipsstandards.org/news/releases/2010/2010_edition_gips_standards_released.html

I greatly appreciate Todd pointing out the note that was included in the press release announcing the adoption of GIPS 2010 by the EC which references early adoption. I failed to read the release in its entirety and therefore didn't see the note; I had expected that, like the GIPS 2005 edition, such a statement would appear in the corpus of the standards.

As always, I also appreciate Todd's candor in responding to the newsletter in general. I tend to be a rather outspoken person, which sometimes gets me into trouble (and may be one of the reasons I abandoned politics). I don't mean any of my remarks to be criticisms of the EC, though I clearly don't always agree with their actions. I simply express my opinions which, I believe, sometimes provide insights which others find of interest and value. While I'm aware that there are at least a few other newsletters in our industry, most, I believe, simply *state the facts* and don't provide commentary. That's difficult for me to do, thus my occasional expressions of views.

However, when I am in error, as I was in February when I said that while early adoption had been stated orally but not in writing, I apologize.

I also think it's important to acknowledge the dedication and hard work of this group. By visiting http://www.gipsstandards.org/about/governance/meetings/index.html you can see the long list of meetings that were held, leading up to the revisions adoption. I've summarized them here:

2010

- 29 January 2010, open conference call
- 20 January 2010, closed conference call
- 13 January 2010, closed conference call
- 8 January 2010, closed conference call
- 6 January 2010, closed conference call

2009

- 29 and 30 December 2009, closed conference call
- 22 and 23 December 2009, closed conference call
- 16 December 2009, closed conference call
- 9 December 2009, closed conference call
- 2 December 2009, closed conference call
- 18 November 2009, closed conference call
- 7 November 2009, EMEA RIPS in-person
- 4 November 2009, closed conference call
- 21 October 2009, closed conference call
- 7 October 2009, closed conference call

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- 16-18 September 2009, Singapore in-person
- 19 August 2009, closed conference call
- 15 July 2009, closed conference call
- 17 June 2009, closed conference call
- 20 May 2009, closed conference call
- 15 April 2009, closed conference call
- 25-27 March 2009, Dublin in-person
- 12 March 2009, closed conference call
- 18 February 2009, closed conference call
- 15 January 2009, closed conference call

And not only the committee, but the CFA Institute's staff that supports this group deserves recognition.

WHEN DAILY IS TOO OFTEN

We're working with a client on a system design and the subject of transaction-based attribution surfaced. An issue faced by many designers is whether to *store* computed results or whether to *calculate them "on the fly."* The tradeoffs are probably pretty clear: storage vs. speed. I know of a firm that a few years ago implemented a daily, security-level, attribution system, which required them to acquire several additional hard drives to store the many terabytes of storage the system required: this was an unanticipated expenditure that, I believe, wasn't welcome.

In general, I favor calculating rather than storing, for a few reasons:

- storage costs
- the need to correct stored values when errors are discovered
- the probability that most of the stored results will never be used.

Well, we could continue this discussion further, but I want to get to the real point of this section: transaction-based attribution and its required periodicity; that is, how frequently you have to calculate the effects.

There's a saying that goes something like "if two pills are good, then ten are better." I think this adage carries over to computing too: "if monthly is good, daily is better." Not always. When it comes to transaction-based attribution, monthly is fine and daily is definitely not needed. We only need to be concerned with the transactions themselves, which should be captured in the weight that's used (similar to what we do with Modified Dietz). And so, why bother doing daily if you don't need to?

It's a different story with holdings-based attribution, because of this approach's assumption that you aren't doing any buying or selling during the period. To improve accuracy, daily is ideal.

THE SPAULDING GROUP'S 2010 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
April 20-21, 2010	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
April 22-23, 2010	Performance Measurement Attribution Training	Chicago, IL (USA)
May 17-18, 2010	Fundamentals of Performance Measurement Training	New York, NY (USA)
September 13-14, 2010	CIPM™ Principles Exam Preparation Class	Los Angeles, CA (USA)
September 15-17, 2010	CIPM™ Expert Exam Preparation Class	Los Angeles, CA (USA)
September 20-21, 2010	CIPM™ Principles Exam Preparation Class	New Brunswick, NJ (USA)
September 22-24, 2010	CIPM™ Expert Exam Preparation Class	New Brunswick, NJ (USA)
September 27-28, 2010	Fundamentals of Performance Measurement Training	Boston, MA (USA)
September 29-30, 2010	Performance Measurement Attribution Training	Boston, MA (USA)
October 4-5, 2010	CIPM™ Principles Exam Preparation Class	London, England (UK)
October 6-8, 2010	CIPM™ Expert Exam Preparation Class	London, England (UK)
October 19-20, 2010	Fundamentals of Performance Measurement Training	San Francisco, CA (USA)
October 21-22, 2010	Performance Measurement Attribution Training	San Francisco, CA (USA)
November 16-17, 2010	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
November 18-19, 2010	Performance Measurement Attribution Training	Chicago, IL (USA)
December 7-8, 2010	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 9-10, 2010	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2010 events, please contact Christopher Spaulding at 732-873-5700

TRAINING…

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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 Introduction to Performance Measurement on these dates:

April 20-21, 2010 – Chicago, IL
May 17-18, 2010 – New York, NY
September 27-28, 2010 – Boston, MA
October 19-20, 2010 – San Francisco, CA
November 16-17, 2010 – Chicago, IL
December 7-8, 2010 – 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:

April 22-23, 2010 – Chicago, IL
September 29-30, 2010 – Boston, MA
October 21-22, 2010 – San Francisco, CA
November 18-19, 2010 – Chicago, IL
December 9-10, 2010 – 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 transporting their staff to our training location and limits their time away from the office. And, because we discount the 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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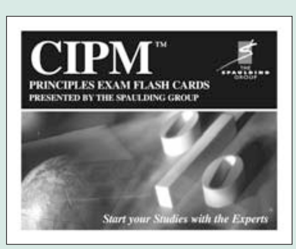

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