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, 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

STRUCTURALISM AND GIPS

Source: Free Clipart

I recently wrote about a fairly recent philosophical concept called "structuralism,' which was championed by Ferdinand de Saussure, a linguist, and Claude Lévi-Strauss , a French anthropologist and ethnologist who perhaps is better known for the blue jeans he created.[1]

Wikipedia defines structuralism as "the theory that elements of human culture must be understood in terms of their relationship to a larger, overarching system or structure." A 30 minute course hardly makes me efficient enough in the material to go into much depth (a little knowledge is a dangerous thing…you can quote me on that). But, I can at least share with you, as I did in my blog, two terms which have applicability to the Global Investment Performance Standards (GIPS®).

These terms, which the lecturer of the course, Professor Louis Markos of Houston Baptist University, explained, are attributable to Sassure; the definitions come from www.Dictionary.com, and define two approaches to analysis:

- **Diachronic:** of or relating to the changes in a linguistic system between successive points in time; historical: diachronic analysis.
- **Synchronic:** having reference to the facts of a linguistic system as it exists at one point in time without reference to its history: synchronic analysis; synchronic dialectology.

And so, we can speak of analyzing something diachronically (what Dr. Markos describes as a "horizontal" approach) or synchronically (vertically).

I believe this is a matter of "perspective," a term I frequently reference when I contrast time- and money-weighted returns. But these terms from structuralim have applicability to GIPS, where compliant firms must report a measure of dispersion (frequently by way of standard deviation) and a 36-month, *ex post*, annualized standard deviation (coincidentally, by standard deviation).

And so, we're using the same statistical tool, standard deviation, to do two things: no wonder many found this confusing when the latter was introduced with the 2010 edition of the Standards.

To make sense of the difference, I created a graphic, which I believe helps.

- Standard deviation as a measure of dispersion looks at the returns of all accounts present the full year, to see how different they are from each other, as a way of seeing how consistent the management of the strategy is.

1 http://www.spauldinggrp.com/applying-philosophical-principles-to-the-gips-standards/

The Journal of Performance Measurement®

UPCOMING ARTICLES

Fixed Income Attribution with Carry Effect
– Tianci Dai, CFA, CIPM Mark Elliott

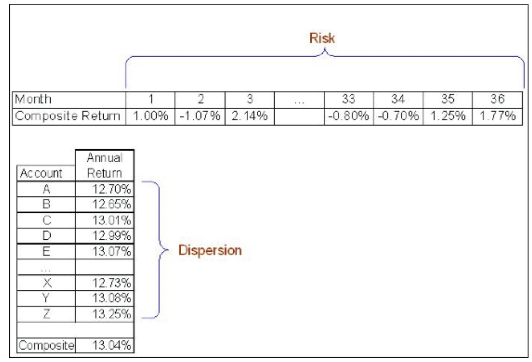
The Associative Property of Attribution Linking
– Yindeng Jiang, CFA Joseph Sáenz, Ph.D.

New Look at Multi-Period Attribution: Solving Rebalancing Issue
– Dmitry Cherkasov, CFA, CIPM

Visualization, R, ggplot2, and Applied Finance in Performance Measurement
– Rodolfo Vanzini

Contribution Fundamentals
– David Spaulding, DPS, CIPM

- As a risk measure, standard deviation measures the volatility of a composite's 36 monthly returns. Volatility alone means nothing, so we're required to do the same measure for the benchmark: thus, we can compare the "risk" of the composite vis-á-vis its benchmark.



Month	1	2	3	...	33	34	35	36
Composite Return	1.00%	-1.07%	2.14%		-0.80%	-0.70%	1.25%	1.77%

Account	Annual Return
A	12.70%
B	12.65%
C	13.01%
D	12.99%
E	13.07%
...	
X	12.73%
Y	13.08%
Z	13.25%
Composite	13.04%

As a measure of dispersion, we look *within* time; that is, within a specific time period (a year's returns), while the risk approach looks *across* time: a longitudinal view. Interestingly, at least to me, doing it across time is shown horizontally, in line with what Dr. Markos spoke of, while dispersion is shown vertically, again, what Dr. Markos described.

These implementations of standard deviation are helpful analytical tools. Dispersion tells the prospective (or existing) client *how consistent* the manager has been in implementing their strategy over time, while as a risk tool, we can see how volatile the composite's performance has been, relative to the market. We are therefore able to answer questions like:

- How consistent has the manager been in implementing this strategy? Is the dispersion so wide that I lack confidence in the reported composite returns, or is it tight enough that it's likely that my return would have been what's being represented by the presentation?
- How risky has this composite been, where risk is defined as "volatility"? Has the composite been more or less volatile than the market? If more, has it generated a positive alpha as the appropriate compensation for more risk?

Would it not be highly appropriate to state that the measure of dispersion is a synchronic approach to analysis, while as a risk measure, standard deviation is a diachronic approach?

You can no doubt see that I like to use these "big words." But, if they're helpful in describing differences, why not employ them?

By the way, the Lévi-Strauss cited above had nothing to do with blue jeans.

And, the course I took ("Great Minds of the Western Intellectual Tradition") is offered by The Teaching Company, through The Great Courses®). It is comprised of 84 lectures, each lasting approximately 30 minutes, meaning it's a 42 hour program, one that I think is excellent.

BI-SAM WEBINAR: A VIRTUAL PANEL DISCUSSION

Earlier this month, I joined four colleagues (Peter Ellis (PK Consulting), Darren Crowley (Pictet Asset Management), Todd Juillerat, CFA (State Street Global Advisors), and Tom Stapleton, CFA (Schroders London)) on a virtual panel discussion which was sponsored by BI-SAM.

RIMES II DATA GOVERNANCE CONFERENCE

New York, June 11

Mark your calendars for the RIMES II Data Governance Conference at NASDAQ MarketSite on June 11th in New York, NY. This conference draws thought leaders and experts from the financial industry such as **AIG Investments, Fidelity, JP Morgan, PIMCO, TIAA-CREF**, and more! This year's presenters include an impressive group of research and industry experts who will explore an array of timely issues as well as the future of the industry. The agenda will have a strong focus on data management best practice, tackling data management challenges, the hybrid operating model, total cost of data ownership, improving corporate efficiency and profitability, the impact of regulations and compliance, and more. Analysts from Forrester and Gartner will be presenting amongst others. Click here for more information including speakers and registration. Contact **marketing@rimes.com** with any questions.

We discussed performance analysis, and offered comments in response to a recent survey BI-SAM conducted. We began by tackling the following:

- To what degree does manual processing pose a challenge to efficient and accurate performance analysis, and what steps can be taken to solve the issues?
- Why does the maturity of fixed income analytics continue to lag behind equity analytics?
- What challenges does the future hold for performance functions over the next 2 – 3 years, and how can organizations proactively prepare now to alleviate those challenges down the road?

We also responded to questions that the attendees posed.

The webinar was free, as is your opportunity to view what was done. To do so, simply go to http://tinyurl.com/nbqeaag (the actual URL is quite large, so this "tiny" one is easier to work with).

PUZZLE TIME

Neil Riddles	USA
Carlos Leute	Puerto Rico
Claude Giguére	Canada
Jed Schneider	USA
Tom Stapleton	UK
Hans Braker	Netherlands
Anthony Howland	UK
Gerard van Breukelen	Netherlands

February/March Puzzle[2]

Somewhere off the beaten track lie three villages: Aden, Baden, and Caden, which share a fire brigade located outside these places. The inhabitants of Aden always tell the truth, while the locals in Baden begin their conversation with a true statement, which is invariably followed by a pack of lies. The villagers in Caden embark on their conversation with a true sentence and then alternately lie and tell the truth. One day the duty officer in the fire station received a call from an inhabitant of one of the villages:

"A fire has broken out in one of the villages!"

"In which village?," demanded the officer.

"In ours!"

"Ours?...and more precisely" asked the officer.

"In Caden!"

At that moment the line went dead.

Which village was the call from? And where should have the duty officer sent the fire engine?

2 Source: Bomanowicz, Zbigniew & Bartholomew Dyda. *100 Math Brainteasers*.

KEEP THOSE CARDS & LETTERS COMING

We appreciate the emails we receive regarding our newsletter. Mostly, 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.

I approached this by way of a spreadsheet:

Statements	**Aden**	**Baden**	**Caden**
	(Always tell the truth)	(Tell the truth, then only lie)	(Truth/Lie/Truth/Lie)
1) A fire has broken out in one of the villages	TRUE	TRUE	TRUE
Therefore, it's true that there's a fire, since all are telling the truth			
2) In our village	TRUE	FALSE	FALSE
Therefore, has to be in Aden, because of Baden or Caden called, they'd be lying, while Aden would be telling the truth			
3) In Caden	TRUE	FALSE	TRUE
Caller can't be from Aden, because we've established the fire's in Aden			
If Caden made the call, he'd be telling a true statement, but we know it wasn't in Caden			
And so, the caller had to be from Baden, since his lie of saying "Caden" ties out			

While the spreadsheet should, in theory, provide enough of an explanation, I'll briefly summarize here.

Statement #1: a fire has broken out. Regardless of the village, we know all tell the truth the first time they start a conversation. ***Conclusion:*** a fire has broken out.

Statement #2: the fire is in "our village". We know that if the call came from Baden or Caden, they'd be lying (since this is the second statement), so it can't be in either of their villages; further, since we know Aden always tells the truth, if the caller is from that village, that's where the fire is. ***Conclusion:*** the fire is in Aden.

Statement #3: the fire's in Caden. We've already established that the fire's in Aden. Therefore, the caller cannot be Aden, because he'd be caught lying, and he doesn't. If Caden's the caller, he'd be telling the truth now, but he can't be, since the fire's in Aden. ***Conclusion:*** since Baden always lies, and since we know this statement is a lie, the caller has to be from Baden.

We had a few more participants this month. Hopefully more will make an attempt!

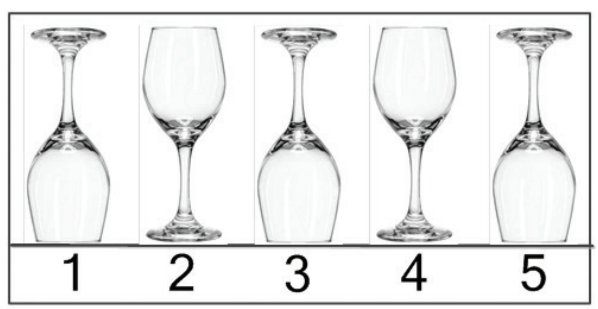
April Puzzle

Five wineglasses have been arranged in a row, as shown in the accompanying picture, numbered from 1 to 5.

Two players take part in the game, and they make moves in turns. However, only two kinds of moves are allowed:

1) Any wineglass standing stem side up can be placed the other way round, i.e., stem side down.

2) You can turn two wineglasses standing side by side if the one standing on the right is upside down.



The winner is the player after whose move all the glasses will be standing on their stems. Does the player beginning the game have a winning strategy (i.e., he can always win, irrespective of what his opponent does)?

THE SPAULDING GROUP'S 2015
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
May 12-13	PMAR North America	Philadelphia, PA (USA)
May 14-15	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
June 15-16	PMAR Europe	London, England
June 18-19	Performance Measurement Forum	Dubrovnik, Croatia
July 14-15	Fundamentals of Performance Measurement	Chicago, IL (USA)
July 16-17	Performance Measurement Attribution	Chicago, IL (USA)
August 24-25	CIPM Principles Prep Class	Chicago, IL (USA)
August 26-28	CIPM Expert Prep Class	Chicago, IL (USA)
September 16	Portfolio Risk	San Diego, CA (USA)
October 20-21	Fundamentals of Performance Measurement	Los Angeles, CA (USA)
October 22-23	Performance Measurement Attribution	Los Angeles, CA (USA)
November 5-6	Performance Measurement Forum	Prague, Czech Republic
November 18	Asset Owner Roundtable Meeting	Phoenix, AZ (USA)
November 19-20	Performance Measurement Forum	Phoenix, AZ (USA)
Nov. 30 – Dec. 4	Virtual PMAR – An online conference event	
December 8-9	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
December 10-11	Performance Measurement Attribution	New Brunswick, NJ (USA)

For additional information on any of our 2015 events, please contact Christopher Spaulding at 732-873-5700

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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:

May 14-15, 2015 – New Brunswick, NJ
July 14-15, 2015 – Chicago, IL
October 20-21, 2015 – Los Angeles, CA
December 8-9, 2015 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.

CE Qualified Activity 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:

July 16-17, 2015 – Chicago, IL
October 22-23, 2015 – Los Angeles, CA
December 10-11, 2015 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

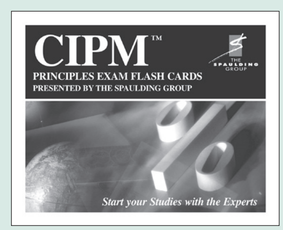
CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.

CE Qualified Activity CFA Institute

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.

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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- Immediate feedback
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