

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 15 – ISSUE 3

DECEMBER 2017

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 Patrick Fowler at PFowler@SpauldingGrp.com

A BIT THIN THIS MONTH...

The holidays are just around the corner (actually, as I write this, we're in the throes of Hanukkah). Today is my first day in the office in more than two weeks, as I have just returned from a trip to Saudi Arabia (where I conducted, with John D. Simpson, CIPM) our five-day Performance Measurement Boot Camp, and India, where I conducted two of our two-day Fundamentals of Investment Performance (one in-house and one open enrollment). Little time to think about our newsletter, so the content isn't as substantial as normal, but still some ideas I hope you find of value.



<http://www.SpauldingGrp.com>

The Journal of Performance Measurement®

UPCOMING ARTICLES

Residuals on Duration-based Fixed Income Attribution

– João Sousa Dias,
Eagle Investment Systems

GIPS 20/20

– Carl R. Bacon, CIPM, StatPro

The Journal Interview

– Nick Sharp, Ph.D., MSCI

Net-of-Fee Performance Calculations

– Andre Mirabelli, Ph.D.,
Opturo and Krista Harvey,
CFA, CIPM, TIAA

A Measure for Evaluating the Distributions of Ex-Ante Forecast Returns

– Masahito Shimizu,
Tokyo Institute of Technology

Confronting the Challenges of Multi-Level Attribution

– David Spaulding, DPS, CIPM,
The Spaulding Group

AN IDEA FOR EMPLOYEE RETENTION

One topic that occasionally arises is how firms can retain their performance measurement personnel.

When firms weren't hiring because of the market doldrums, this wasn't such a big issue, as folks wanted to stay put. But now, that the market is growing, there are new opportunities, so some are looking for "greener pastures."

My thinking is to return to the age old management idea of motivating employees to the point they won't want to leave.

There's a rather famous article from *Harvard Business Review* by Frederick Herzberg titled "One More Time: How do you motivate employees." It first appeared in 1968, but has remained a classic and has been republished at least once.¹

In the article, the author speaks of motivators and de-motivators. One motivator that I believe all benefit from is recognition. And one way to recognize people is through titles.

At one time all we had were "performance analysts." And, perhaps the "manager of performance." Today, there are many more titles at the senior level. Might we consider adding a few more?

When I left the army in 1977, I joined a consulting company called Computer Task Group. They had several levels of "systems engineer." It occurred to me that perhaps a similar thing could be done for performance analysts. Perhaps something like the following

- Junior Performance Analyst
- Performance Analyst
- Advisory Performance Analyst
- Associate Performance Analyst
- Senior Performance Analyst
- Master Performance Analyst

might provide organizations with a way to (a) recognize individuals for their personal growth and contributions to the firm, as well as (b) a way to differentiate individuals within the organization.

The reality is that it may take a while before someone is able to move into the management ranks. But, if firms can recognize individuals as they move forward in their advancement, might this prove beneficial?

Just a thought. Please let me know your thoughts.



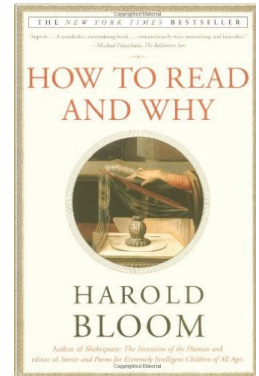
1 See <https://pdfs.semanticscholar.org/ca2a/a2ae02ac5b738b55b12b7324fac59571b1c1.pdf>

CIPM PRACTICE SURVEY

CFA Institute's annual CIPM practice survey will be live January 16 through 30. Keep an eye on your email and do your part to improve our profession! Your contributions will play an integral role in the future development of the CIPM Program curriculum.

BOOK REVIEW - *HOW TO READ AND WHY*, BY HAROLD BLOOM

Not long ago I stumbled upon Harold Bloom's *Falstaff: Give Me Life*. I was interested, for reasons I cannot recall, to explore this character. I regret very much having not discovered this octogenarian professor of English Literature much earlier in my life. The author of more than 40 books has much to offer.



Well, when I completed *Falstaff*, I decided to explore what else he had published, and while the title might seem like an odd one for someone of my age to bother with, I hoped that I would discover some new techniques.

The book isn't so much about how or why to read, but more about *what*. Bloom breaks the book into sections, covering short stories, poetry, plays, and novels, and touches on many of his favorite, which, in reality, should probably be on everyone's reading list.

I'll confess that as an undergraduate student, I had very little interest in English Literature; and though I was required to take two courses in it, it never captured much of my attention. This might be partly due to the professor, who I recall being more interested in politics than lit.

In recent years I have attempted to make up for lost times, by mixing in "classics" with my normal diet of nonfiction and business books. *How to Read and Why* has only become an even greater motivator for me, causing me to quickly obtain a few books on poetry and plays that I had previously overlooked (my library actually does contain some of each, though too rarely attended to).

I recommend this book, as well as other Bloom books, as in each he provides, I am sure, much of what he would pass along to his students. I am sure your life will be enriched if you take up some of what he proposes. And I am looking forward to delving into some areas (specifically, short stories) that I have totally ignored.

PUZZLE TIME!

November

Last month's issue incorrectly had the puzzle identified as being for October; that as before I realized I wasn't going to be able to get an October edition out, and I failed to change the label: sorry. Anyway, here's what we had: Our friend and colleague, Jed Schneider, a fellow Jeopardy fan, offers this month's puzzle: what is the highest possible score in Jeopardy? Of course, this assumes you know the show; if you don't, I'm guessing you can find an example on YouTube to gain some understanding as to the rules and derive the answer.

There are three rounds to Jeopardy. The first involves possible amounts as shown here:

THE DINOSAURS	NOTABLE WOMEN	OXFORD ENGLISH DICTIONARY	NAME THAT INSTRUMENT	RELIGION	COMPOSERS BY COUNTRY
\$200	\$200	\$200	\$200	\$200	\$200
\$400	\$400	\$400	\$400	\$400	\$400
\$600	\$600	\$600	\$600	\$600	\$600
\$800	\$800	\$800	\$800	\$800	\$800
\$1000	\$1000	\$1000	\$1000	\$1000	\$1000

The second has the same layout, but where all the amounts are double. And the third is one where contestants are given one question to solve, and can bet any amount, up to 100% of what they've accrued.

In the first round contestants are given a Daily Double, where they can wager up to 100% of the amount they have up to that point; in the second round there are two of them.

The max would, I'd think, mean that one individual gets all of the questions correct. The Daily Double can appear anywhere on the board, though I've never seen it in the first row, so will assume this holds. In order to "max" out, I would think that in the first round, it would be exposed with the very last question. In the second round, I would think that the two daily doubles would appear back-to-back, as the last two questions. I will assume that in all cases, the Daily Double appears on the second row, in order to maximize the possible bet.

Let's start with the first round. Okay, so we'll have the daily double appear in one of the \$400 boxes, and the contestant answers all correctly up to that point, meaning they got all the \$200s (for a total of \$1,200), \$600s (for a total of \$3,600), \$800s (for a total of \$4,800), and \$1000s (for a total of \$6,000).

Further, they got the five \$400s that don't have the Daily Double (for a total of \$2,000). And so, at the point they reveal the Daily Double they have accumulated the amount shown in Table 1.

Base Amount	Number	Total winnings
\$200	6	\$1,200
\$400	5	\$2,000
\$600	6	\$3,600
\$800	6	\$4,800
\$1,000	6	\$6,000
Total prior to DD		\$17,600
Total after DD		\$35,200

Now, we move to Round 2. The amounts double. We will, again, assume that the two Daily Doubles are on the second line: highly unlikely, but we'll assume it anyway. Prior to the Daily Doubles, the contestant gets all six of the \$400s (for a total of \$2,400), \$1,200s (for a total of \$7,200), \$1,600s (for a total of \$9,600), and \$2,000s (for a total of \$12,000). In addition, the contestant gets the first four \$800s correct, prior to getting the Daily Doubles (for a total of \$3,200). This brings the total winnings for this round so far to \$34,400. If we add this to the winnings from the first round (\$35,200), we get \$69,600. This is available to bet on the first Daily Double. Getting this correct brings the winnings to \$139,200. They can now double again, bringing the total to \$278,400.

Base Amount	Number	Total winnings
\$400	6	\$2,400
\$800	4	\$3,200
\$1,200	6	\$7,200
\$1,600	6	\$9,600
\$2,000	6	\$12,000
Carryover from Round 1		\$35,200
Winnings in Round 2, prior to first DD		\$34,400
Total available to wager for first DD		\$69,600
Total after first DD		\$139,200
Total after second DD		\$278,400

Now, we go into the final round, and put all the money down (in all likelihood, even the most aggressive contestant would probably save at least \$1, so that they will have more than their competition, but we'll assume they wager everything, which brings our winnings to \$556,800. Not bad for a half hour's work.

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.

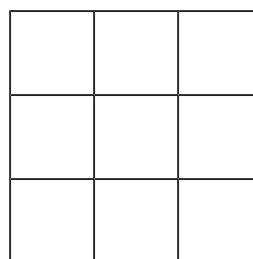
I found a solution online² which has the max at \$566,400, a bit more than what I show. But here the assumption is that the daily doubles are on the first line. This is the answer our friend Anthony Howland³ came up with.

While in theory this could happen, the reality is, I believe, that they've never done this, thus me putting them on the second line. Furthermore, it is extremely unlikely that all three would be on the second line, but we can assume anything, right?

Anyway, your answer should be in this neighborhood, let's say that.

December Puzzle

Three squares are chosen at random from the 3×3 grid below, and a cross is placed in each chosen square.



What is the probability that all three crosses line in the same row, column, or diagonal?

- A. $1/28$
- B. $2/21$
- C. $1/3$
- D. $8/9$

² See <https://www.themarysue.com/jeopardy-winning-limit/>

³ Interesting that no Americans or Canadians (where the host, Alex Trebeck, is from; many contestants come from there, too) submitted an answer!

**THE SPAULDING GROUP'S 2018
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS**

DATE	EVENT	LOCATION
January 16-17, 2018	Fundamentals of Performance Measurement	Singapore
January 18-19, 2018	Performance Measurement Attribution	Singapore
February 20-21, 2018	Fundamentals of Performance Measurement	Boston, MA
February 22-23, 2018	Performance Measurement Attribution	Boston, MA
March 13-14, 2018	Fundamentals of Performance Measurement	San Francisco, CA
March 15-16, 2018	Performance Measurement Attribution	San Francisco, CA
April 25, 2018	Asset Owner Roundtable	Denver, CO
April 26-27, 2018	Performance Measurement Forum	Denver, CO
May 15-16, 2018	PMAR North America	Philadelphia, PA
May 17, 2018	Bacon vs. Spaulding	Philadelphia, PA
June 11-12, 2018	PMAR Europe	London, England
June 13, 2018	Spaulding vs. Bacon	London, England
June 14-15, 2018	Performance Measurement Forum	Dublin, Ireland
July 16-20, 2018	Performance Measurement Boot Camp	New Brunswick, NJ
August 14-15, 2018	Fundamentals of Performance Measurement	Chicago, IL
August 16-17, 2018	Performance Measurement Attribution	Chicago, IL
October 15-16, 2018	Fundamentals of Performance Measurement	San Diego, CA
October 17-18, 2018	PMAR West Coast	San Diego, CA
November 15-16, 2018	Performance Measurement Forum	Luxembourg
November 28, 2018	Asset Owner Roundtable	Orlando, FL
November 29-30, 2018	Performance Measurement Forum	Orlando, FL
December 5-6, 2018	Fundamentals of Performance Measurement	Mumbai, India
December 11-12, 2018	Fundamentals of Performance Measurement	New Brunswick, NJ
December 13-14, 2018	Performance Measurement Attribution	New Brunswick, NJ

For additional information on any of our 2018 events, please contact Patrick Fowler at 732-873-5700

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

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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 20-21, 2018 – Boston, MA

October 15-16, 2018 – San Diego, CA

March 13-14, 2018 – San Francisco, CA

December 11-12, 2018 – New Brunswick, NJ

August 14-15, 2018 – Chicago, IL

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.



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 22-23, 2018 – Boston, MA

August 16-17, 2018 – Chicago, IL

March 15-16, 2018 – San Francisco, CA

December 13-14, 2018 – 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.



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.

WORKING ON YOUR 2018 BUDGET?

Don't forget to make room for conferences. And why not the Trifecta of Performance Measurement Conferences?



PMAR, Performance Measurement, Attribution & Risk, is the #1 performance measurement conference. If you've never experienced it, you owe it to yourself and your firm. And if you have, then you know the great value it is. And now, there are three to choose from!

So please set aside funds in your 2018 budget to participate in PMAR!