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Since 1990, The Spaulding Group, Inc., an employee-owned business, has had an increasing presence in the money management industry.

The Spaulding Group, Inc. is the fastest-growing verification firm, serving clients around the globe, with assets ranging from less than $100 million to more than $1 trillion. We provide an array of other performance measurement services and products, including consulting, publishing (*The Journal of Performance Measurement®*), research, and training. We also host the Performance Measurement Forum, the Asset Owners' Round Table, and the Annual PMAR™ Conferences.

We are actively involved as members of the CFA Institute and other industry groups. The Spaulding Group has also led the charge for the industry in the handling of error correction, attribution guidelines/ standards, and Investment Performance Measurement Analyst Certification (since handed over to the CFA Institute and now called the CIPM program).

Several of our senior staff regularly speak at and/or chairs industry conferences. Our founder and CEO, David Spaulding, is a frequent author and source of information to various industry publications. Our firm continues to make huge contributions to our industry, in terms of valuable content, innovative ideas, and volunteer activities.

Our clients appreciate our industry focus and understanding of their business, their needs, and the opportunities to make them more efficient and competitive.

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Time-weighted Rates of Return Ranked (Best to Worst)

I find inspiration for fodder from many sources. And this topic comes from a strength series ATHLEAN-X™ has on YouTube.

Worst

The worst group includes the following.

First, from a valuation period perspective. If you are valuing your portfolio longer than a month, you have a problem. E.g., if you are valuing only quarterly (that is, at the start and end of the quarter), you're not doing it often enough. The only exception to this would be if there are no external cash flows during the period.

We generally expect portfolios to be valued at least monthly.

Second, if you are not revaluing the portfolio for "large" external cash flows, you have a problem. Large flows can cause distortions in the return's accuracy; thus, the expectation that you will revalue when large external flows occur. While you should have the freedom to define what "large" represents, the highest level should be 10 percent; higher levels should be avoided as distortions will likely arise.

I guess another "worst" method would be a non-standard one, that you or your colleagues thought made sense, but is, in reality, lacking. I occasionally run into these. If you've crafted your own method, you should have a qualified investment performance measurement professional check it out, to ensure it is appropriate.

Better

Okay, so you're using a monthly method (e.g., Modified Dietz) and revaluing your portfolio for flows greater than 10 percent. Excellent. But greater than 10% relative to what?

If your "what" is the start of month value, you are perhaps introducing errors if you have multiple flows in a month.

Let's take a $100,000 starting value, and you get an inflow of $10,000. That is 10% of the start-of-month value, so you revalue. And let's say a few days later you get another $10,000; it, too, is 10% of the start-of-month value. However, we would argue that your test for the second

The Journal of Performance Measurement®

UPCOMING WINTER ISSUE

The Spaulding Group's 2020 GIPS® Standards Survey Results
- David D. Spaulding, DPS, CIPM, The Spaulding Group

Look Before You Leap: A Risk-Based Framework to Aid Middle- and Back-Office Outsourcing
- Jose Michaelraj, CIPM, CAIA, Meradia

Hidden Errors in Regression-Based Attribution
- Leigh Sneddon, Ph.D., CFA, Mayfield Investment Solutions, Inc.

The Journal Interview
- Kathleen Seagle, CIPM, The Spaulding Group

Practical Guideline for Funding/ Solvency Ratio Attribution
- Maarten Niederer, Ortec Finance

LANDMARK ARTICLE:
The Challenges of After-Tax Performance Reporting
- Douglas S. Rogers, CFA

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https://spauldinggrp.com/free-journal-of-performance-measurement/

flow would be the value of the portfolio after the prior revaluation and addition of the flow. E.g., if at the time of the first flow the portfolio was valued at $102,000, when we add the $10,000 we get $112,000, and this is the value you should test against.

Here's another example: you again have a 10% threshold and again start with $10,000. This time you have a withdrawal of $10,000. At the time of the flow your portfolio's value was $97,000, so with the withdrawal it's now at $87,000. You next get a flow of $9,000 in. If you compare this to the start-of-month value ($100,000), you would deem it not to be "large," so wouldn't revalue. However, if we compare it to the most recent valuation ($87,000), it qualifies as a large flow; the portfolio should be revalued.

Better still

You are using a monthly method (e.g., Modified Dietz) and wisely test all flows against the most recent valuation, as addressed in the "better" category. Excellent! Your returns will be much more accurate. But, you can do even better ...

Almost Best

You have decided to revalue the portfolio for all cash flows, regardless of whether they are large or not. And, you calculate sub-period returns between all cash flows. Excellent. So, why isn't this "Best"? Well, we'll take about that shortly.

How do you treat the flows? If you always treat them as start-of-day or always as end-of-day, you will occasionally see misleading results. I've addressed this previously, but don't have the time to look for them (sorry); but, I will take this topic up again in a future issue.

Best

You calculate daily returns, regardless as to whether there is a flow or not.

In truth, if you don't make any adjustments to the timing of cash flows (start- or end-of-day) you'll get the same returns as with the "Almost Best" approach. One advantage of doing returns daily is you can more easily calculate point-to-point returns; that is, returns between any two dates. If you only calculate returns from cash flow date to cash flow date, you have some limitations.

Hope you find this of interest; always open to your thoughts! Oh, and I will plan to offer an example or two in a coming newsletter.

THE SPAULDING GROUP'S 2022
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
May 10-11, 2022	PMAR North America	Philadelphia, PA
May 25, 2022	Asset Owner Roundtable Meeting	Nashville, TN
May 26-27, 2022	North American Meeting of the Performance Measurement Forum	Nashville, TN
June 16-17, 2022	EMEA Meeting of the Performance Measurement Forum	Amsterdam, The Netherlands
November 10-11, 2022	EMEA Meeting of the Performance Measurement Forum	London, England
November 15-16, 2022	Fundamentals of Performance Measurement Training Class	San Diego, CA
November 16, 2022	Asset Owner Roundtable Meeting	San Diego, CA
November 16, 2022	Broker/Dealer Symposium – First Meeting	San Diego, CA
November 17-18, 2022	North American Meeting of the Performance Measurement Forum	San Diego, CA

For additional information on any of our 2022 events, please contact Patrick Fowler at 732-873-5700.

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- ✓ Improved morale, investing in your staff shows them your commitment

"

*It's hard to find such focused training around the topic of performance measurement along with experienced instructors who can get into the details of various calculations. I recommend this two-day training course for firms looking to provide a good foundation on this topic." **– Rajiv Mathur, Kaiser Permanente***

TO LEARN MORE, PLEASE CONTACT:

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AVAILABLE CLASSES:

- ✓ Fundamentals of Performance Measurement
- ✓ Performance Measurement Attribution
- ✓ Portfolio Risk Measurement
- ✓ GIPS standards workshop
- ✓ Investment Performance Measurement Boot Camp
- ✓ Performance Measurement for Non-Performance Professionals
- ✓ Performance Measurement for Plan Sponsors and Consultants
- ✓ Or, customize a class to meet your specific needs

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