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To what precision should your returns be reported?

I did a LinkedIn survey last month, with a simple question: "To what level of precision do you typically report performance (rates of return)?

We got 120 votes, including my own; here are the responses:

Dr. David Spaulding, DPS, CIPM • You
I'm a writer, speaker, and teacher, and I help solve performance & risk measure...
1w •

A topic of recent discussion: to what level of precision should rates of return be presented? What say you?

To what level of precision do you typically report performance (rates of return)?
You can see how people vote. Learn more

Zero decimal places	2%
One decimal place ✓	13%
Two decimal places	68%
Three or more decimal places	18%

120 votes • Poll closed • Remove vote

It might be obvious how I voted, as the checkmark gives it away.

Most people, probably not surprisingly, report to two decimal places. Now, my thoughts:

Zero decimal places

This choice received the fewest votes (only two people out of the 120 checked it off). Is there anything wrong with this level of precision? Perhaps.

Consider the following returns: 7.51%, 7.63%, 7.74%, 7.82%, 7.89%, 8.01%, 8.14%, 8.19%, 8.26%, 8.36%, and 8.49 percent. They would all be shown as 8 percent. But wouldn't we agree there are differences that are not shown by a simple 8 percent? The extremes in this series, 7.51% and 8.49%, do seem pretty different, right? They're separated by 98 basis points, but both round to 8 percent.

I would therefore suggest that such a level of precision isn't quite enough.

The Journal of Performance Measurement®

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The Future of Investment Performance Analysis: Humans + Machines
- Mark Goodey, Dip IoD, Arria NLG

Tax-Smart Performance Measure
- Andrew Kalotay, Ph.D., Andrew Kalotay Associates

Thoughts and Clarifications on Risk-Adjusted Performance
- David Spaulding, DPS, CIPM, The Spaulding Group

The Journal Interview
- Simon Filteau, CFA, CDPQ

DeFi: The Financial Fabric of the Metaverse
- Peter Horne, Northfield Performance Systems

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Three or more decimal places

I do not find such a level of precision warranted.

To see, for example, 7.510%, 7.511%, 7.512%, 7.513%, 7.514%, rather than simply 7.51% adds nothing, in my view. And to go to even more precision (e.g., 7.5113%) is quite a bit overboard.

When I see clients report to three or more decimal places, I always suggest they reduce to at least two, if not one [see below].

What is gained by going to three or more decimal places? Does anyone care to see it to this level? Perhaps a few folks, but for most people, it serves no purpose.

Plus, with such precision, the likelihood of errors increases, I believe, necessitating corrections which are non-material.

Two decimal places

Perhaps it's not surprising to discover that most of the participants chose this response; it's the one I most often come across when doing verifications. And, I think it's what most investment professionals are comfortable with and would recommend to others.

You cannot go wrong with two decimal places.

But, it's not my preferred level of precision ...

One decimal place

I think one is sufficient.

Interestingly, perhaps, it lagged behind those who selected three or more, coming in third place, just ahead of the no decimal places option.

I prefer it because I think such precision is adequate in conveying returns. Plus, it has the added advantage that errors are less prone. E.g., if you reported 13.12% only to discover it was really 13.14, your 13.1 won't change.

In the end (or, if you prefer, at the end of the day)...

You're safest with one or two decimal places.

And, as one person commented, you "Need higher precision behind the scenes." That is, how you store your returns. Returns should be stored to a minimum of four decimal places; and, I think ideally to six. Only show one or two, but store to more, to avoid rounding issues that might arise.

As always, your thoughts are welcome.

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

DATE	EVENT	LOCATION
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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