

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 CSpaulding@SpauldingGrp.com

ACADEMIC VS. PRACTITIONER WRITING

As you may be aware, there's a huge difference between writing for an academic publication and writing for a practitioner one, like *The Journal of Performance Measurement*[®]. Now that I'm pursuing a doctorate I'm reading loads of academic articles, and one thing I've discovered is the frequent presence of certain words in academic articles.

For example, I've continually encountered the following terms: exogenous, endogenous, and stochastic. Now, perhaps you're familiar with these words and perhaps even use them on a regular basis. For the articles I've written in the past I would have used (respectively) external, internal, and random. But, as I prepare an article for an academic publication or my dissertation, I can assure you that I will be using the former set. As they say, it's not WHAT you say but HOW YOU SAY IT, yes?

(AND SPEAKING OF WORDS) THE WORD OF THE DAY...

"The key players are neither stupid nor doctrinaire, but as a political matter they must of course always express complete confidence in whatever harsh medicine they prescribe."¹ In my readings I often encounter unfamiliar words that prove to be useful and here's such an example:

Doctrinaire – *noun*

1. a person who tries to apply some doctrine or theory without sufficient regard for practical considerations; an impractical theorist.

– *adjective*

2. dogmatic about others' acceptance of one's ideas; fanatical: a doctrinaire preacher.
3. merely theoretical; impractical.
4. of, pertaining to, or characteristic of a doctrinaire.²

One challenge and recommendation for those who oversee the next edition of the Global Investment Performance Standards: avoid becoming doctrinaire. I like the expression "just because something can be done doesn't mean it should be done." Practicality should always be a consideration when introducing new rules. Some of what's been proposed will result in a significant amount of additional work and cost to compliant firms for questionable benefits. Thus we must ask why such changes would be offered.

¹ Krugman, Paul. Originally appeared as "Saving Asia." *Fortune*. September 7, 1998. Quote taken from [Panic: The Story of Modern Financial Insanity](#). Michael Lewis, ed. (W.W.Norton & Company: 2009)

² Source: www.Dictionary.com.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

Balanced Portfolio Attribution

– *Stephen Campisi, CFA,
Intuitive Performance Solutions*

Private Investments and Performance Implications from a Fund Sponsor's Perspective

– *Guy M. Holappa, CFA, BNY
Mellon Asset Servicing*

Establishing Benchmarks for Currency; The Disentangling of Currency Returns

– *Eric B. P. Busay, CFA, CalPers*

Value-based Performance Measurement: A Further Explanation

– *Seth Armitage, Ph.D.,
University of Edinburgh
and Gordon Bagot.*

Utility-Adjusted Performance

– *Charles E. Appeadu, Ph.D.,
CFA, CFA Institute and
Luis García-Feijóo, Ph.D.,
CFA, CFA Institute*

The Journal Interview

– *David Spaulding, CIPM,
The Spaulding Group Inc.*

AND NOW, SPEAKING OF THE STANDARDS

Congratulations to the GIPS Executive Committee for making their deadline! They had planned to have the “exposure draft” available by the end of January and they made it: it’s available at:

http://www.gipsstandards.org/news/releases/2009/gips_2010_exposure_draft_open_for_public_comment.html

I am just beginning to review the document in its entirety and so will offer further comments in our next issue. To help you better understand what these changes mean, we are hosting a webcast.

Don’t Get Caught with Your Pants Down!

Join us on March 4 at 11:00 AM (EST) for a two-hour interactive discussion via webcast.

To register, please contact Patrick Fowler (PFowler@SpauldingGrp.com) at 732-873-5700. For the webcast, we’ve asked two members of the GIPS Executive Committee, Neil Riddles and Todd Juillerat, to present the major changes that are being planned. I will chair the panel and offer my opinions about many of these proposed changes so you get a sense of the potential impact some of them might have on you and your organization.

This two-hour briefing will also provide you an opportunity to ask questions, and voice your own thoughts and opinions about these ideas. There is a \$150 charge to participate in the webcast.

ATTRIBUTION FOR PLAN SPONSORS, FUND-OF-FUND MANAGERS

On occasion we’re asked to assist plan sponsors and fund-of-fund managers with attribution, including software searches. We’re also asked to provide specs for a fixed income attribution system and our response is: why?

What question are you trying to answer? If, for example, in the case of a FOF manager we want to know how well the manager did, what good will a fixed income attribution system be? The FOF manager isn’t making yield curve bets or sector selection decisions, are they? Chances are they’re making (a) selection decisions (i.e., what managers to pick) and (b) allocation decisions (i.e., how much money to give them to manage). We want to assess how well they did with THESE decisions, which a fixed income attribution will fail to provide.

If we want to know how well a fixed income manager did, including where they got their returns, then such a system will have value, although I’d begin by asking the manager to provide this reporting to me.

Attribution analysis from the plan sponsor and fund-of-fund managers’ perspectives needs further discussion. At our last TIA (Trends in Attribution) event, we had a session that was essentially on this topic. We will continue to delve into it further, so as to shed further light on the various approaches and benefits of each.

BLUEPRINTS AND ROAD MAPS VS. MINE FIELDS

“The Washington consensus listed 10 or 12 steps – the recipe for economic development. When you look at those, they’re all pretty reasonable. But it’s a kind of bland list of

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We're pleased to announce that our new website is now available for PerformanceJobs.com. Take a visit and you'll also see that we already have jobs posted. We're very excited with the initial interest this new venture has caused and look forward to it becoming the major resource for individuals seeking employment as well as firms looking to hire. If you know of someone who is looking for a career in investment performance, please direct them to our site and encourage them to submit their resume today.

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commandments, rather than a real blue print of how to get from A to B, much less from A to Z, when you're trying to make an extraordinary difficult passage from one disaster to hopefully something better. There are so many land mines around that just having the list of the to-do's [sic], the good things that one should do, is not really a strategy or a set of tactics."³

(Are you noticing a pattern here? Two quotes from the same book in the same newsletter? Must mean I have gotten a lot out of the book...I have!).

For years we've offered a *road map to GIPS compliance*. Unfortunately, some think that all you need to do is follow these steps and you're "home free." Not necessarily. Most firms typically run into something that was unexpected. Something that requires some analysis or interpretation.

We're working with a European Private Bank who wishes to comply with GIPS and provided them our standard list of "to dos." But we also cautioned them to be aware of land mines. There is no "cook book" approach to compliance. Every firm has its own unique history that often creates challenges that need to be addressed. Having access to a knowledgeable resource is critically important to the success of compliance, both initially and on an ongoing basis.

BOOK OF THE MONTH...

You guessed it, Panic by Michael Lewis. This is actually a compendium of articles drawn from various sources over the past 20 plus years, that describe markets before and after various market upheavals (e.g., 1987, the dot com fiasco). Obviously the book's timing is to coincide with our current market difficulties.⁴

The book is excellent. For those of us who lived through some of these prior events, it offers reminders and some additional insights that perhaps we weren't familiar with or hadn't thought about for some time. For example, regarding the '87 event, "we still do not know what caused [it]."⁵ I particularly liked Lewis' own comments regarding the Long Term Capital Management failure. He offers details that weren't included in two books I read on this topic.

THE REST IS ALL BULL

Worry never robs tomorrow of its sorrow, it only saps today of its joy.
~Leo Buscaglia

Many of us are being stressed by the volatile market and uncertain economy in which we find ourselves. We've recently learned of a couple (quite wealthy) individuals who chose suicide rather than deal with the fallout that faced them. Far be it for me to judge them for this rather extreme action. Hopefully if things get really, really tough for me, I'll find a way to deal with it.

³ Sachs, Jeffrey D. Originally appeared on "The Crunch." *Frontline*. Spring 1999. Quote taken from *Panic: The Story of Modern Financial Insanity*. Michael Lewis, ed. (W.W.Norton & Company: 2009)

⁴ Timing is, as they say, everything. Had Lewis waited a month longer he may not have included quotes from the formerly admirable Bernie Madoff but rather some well deserved chastisement. It's interesting that he includes reference to a *Fortune* piece (page 258) that was about to be produced when the Enron scandal had surfaced; since the magazine had quite a laudable piece on Enron's chairman and CEO Ken Lay (including his picture on the cover), production was halted and some quick editing occurred. This didn't happen with this book.

Are You Currently Facing Staffing Issues?

Can't find enough qualified help? Need an extra hand to roll out quarter end/ year end numbers?

As firms realize the enhanced function that performance teams now play in the overall investment process, the market for qualified staff has become more and more competitive. The Spaulding Group can help your staffing needs with our "**just-in-time**" staffing resources for all of your performance needs.

TYPES OF ASSIGNMENTS

The Spaulding Group can help your firm in many ways including:

- GIPS® Related work
- Performance Analysis and Numbers Preparation
- Operational Issues
- Data Issues
- System Implementations
- System Design

Advantages of utilizing The Spaulding Group's staffing resources:

Cut Benefit Costs – Given the rising cost of benefits and the fact that workers comp and disability continue to rise, the hourly cost for a consultant or temporary staff figures in substantially below that of a full time worker of comparable skill set.

Eliminate Training Costs -Our staff comes ready to roll up their sleeves and help you as soon as they walk in the door.

Eliminate Hidden costs of Overtime - There is substantial evidence that despite the short-term benefits that make overtime attractive to employers, a growing body of research shows that working long hours over long periods of time is not necessarily cost-effective because of diminished quality, increasing mistakes and reduced productivity.

Reduce Costly Hiring Mistakes - Using The Spaulding Group employees eliminates the cost of mistakes in hiring and using marginally productive workers because employers get temporary professionals with the right skills and the best personality for the job. In fact The Spaulding Group assumes the risk for the firm, that is, if our staff does not perform the work is free.

Staff Up and Down at your Convenience - Have to get those quarter-end numbers done? Staff out on vacation or maternity leave? Bring us in for a day, a week, a month, or a year – our staff is ready to assist whenever you need us.

The Spaulding Group arrives ready to work, focused on doing the job and meeting project goals.

For additional information, please contact Chris Spaulding at **732-873-5700** or CSpaulding@SpauldingGrp.com

Like many others, our firm is witnessing the impact of reduced budgets and is having to find ways to deal with them. But you know what, in the end all of this is really not that important. It's just bull.

A very dear client and friend learned she had cancer last year. Granted, people learn every day they have cancer. Who doesn't know of people who have suffered from cancer and/or died from it? Many of us have relatives who have faced this dreaded disease, some with a more sanguine outlook than others. And no doubt, some of us have had it ourselves and managed to overcome it, to be a "cancer survivor." My first encounter with cancer was when I was 13, when my mother died from it at the age of 49.

But this occurrence with our client really touches me; I can't say exactly why, but it does. Perhaps it's because she's even younger than my mother was and deserves to have a long healthy life ahead of her, to enjoy her family and what the world offers us.

Perhaps it's because over the years our relationship has extended beyond a mere client/vendor one. This is our goal with all of our clients: to become friends, as everyone prefers to do business with friends, yes?

I have always enjoyed visiting her when it's time to conduct their verification. I've made it clear that regardless of how many of our team conduct verifications, I'll never give this one up, and it's not just because of the warm climate where she works; it's the people I encounter there.

I've managed to keep in touch with her and her assistant on a regular basis, and have been kept very informed of her progress. She remains amazingly brave and hopeful in spite of the various difficulties she's faced. I pray for her every morning in the hope that God will respond and remove this disease from her body.

Sometimes, when it looks like we're facing some challenge, I stop and think of my friend, our client. This immediately gets me to put things into perspective, 'cause after all, most of the challenges I face pale in comparison. Please add my friend to your prayer list...every voice counts. Thanks!

PERFORMANCE MEASUREMENT CONFERENCES IN A DOWN MARKET

Given the impact of the market you may encounter budget restrictions which will require you to give serious thought as to whether to invest in a performance measurement conference in 2009. We want to propose some criteria you may want to consider when comparing alternative events:

1. Are the speakers primarily vendors or practitioners? Most attendees want to hear a mix, though they generally prefer to hear primarily from practitioners, at least that's our experience. See how the speakers stack up in the conferences you're considering. (Note: PMAR VII has a mix, though most of our speakers are practitioners).
2. What do you get for your investment? Many conferences have cut back themselves on what they provide: for example, many conferences no longer give their attendees binders with copies of the slides. (Note: we always provide binders with slides, plus much more, including audio CDs and conference transcripts! For example, all attendees at PMAR get a gift for attending).

GIPS 2010 - An Executive Briefing

Hear from two members of the GIPS Executive Committee

The Global Investment Performance Standards (GIPS®) are about to undergo their second major revision: GIPS 2010. These changes go into effect in January 2011. But before they do, the proposed changes will be open to public comment. As one who's involved with the standards, it's imperative that you know what's being considered so you can respond accordingly.

We've asked two members of the GIPS Executive Committee, Neil Riddles and Todd Juillerat, to present the major changes that are being planned. In addition, you will hear from David Spaulding, an internationally recognized authority on investment performance and the GIPS standards. Dave will chair the panel and offer his opinions about many of these proposed changes so you get a sense of the potential impact some of them might have on you and your organization.

This two-hour briefing will also provide you an opportunity to ask questions, and voice your own thoughts and opinions about these ideas.

HOW WILL THE CHANGES AFFECT YOU AND YOUR FIRM? LEARN FROM OUR PANEL OF GIPS EXPERTS

Neil Riddles, CFA, CIPM, *Chair of GIPS Council and Executive Committee Member*

L. Todd Juillerat, CFA, Americas' Representative to the GIPS Executive Committee

David Spaulding, CIPM

Join us on March 4 at 11:00 AM (EST) for a two-hour interactive discussion via webcast. There is a \$150 charge to participate in the webcast.

To register, please contact Patrick Fowler at PFowler@SpauldingGrp.com at 732-873-5700

DON'T GET CAUGHT WITH YOUR PANTS DOWN!



3. Are the speakers the same year-to-year? Some conferences prefer to keep the same set of speakers, introducing but a few new ones each year. While it's good to see some consistency, especially when speakers are good, most attendees appreciate seeing some new faces. (Note: we rotate more than 70% of our speakers at each conference, retaining just a few who get extremely high marks each year).
4. Do the topics change or remain pretty much the same year-to-year? Our industry is dynamic, and so topics should be, too. (Note: PMAR VI has 100% new topics; we don't repeat topics from year-to-year, but always seek to find sessions that will be interesting, enlightening, informative, insightful, and engaging).
5. What's the cost of the event? It's a simple process to compare each conference's pricing. (PMAR VII continues to be the cost savings leader from our own review; we provide high quality topics and speakers for a very low price, especially relative to other promoters).
6. What conference do the vendors prefer? A good gauge is the number of vendors that cosponsor the event: if the vendors don't find much value, chances are the attendees won't, either. (PMAR VI had 15 cosponsors; we expect to have a similar number at PMAR VII).
7. How many attend? Obviously, numbers speak a great deal. (PMAR VI had 160 attendees; with today's market, we don't yet know what our numbers will be, although we're ahead of last year in registration!).
8. Does the conference offer a money-back guarantee? Who should bear the risk that the conference may not be that good, the promoter or the attendees? (Our events always offer a money-back guarantee: we believe it's unfair to make the attendee carry the risk).
9. Do value comparison. Value equals benefits divided by price⁶ $V = \frac{B}{P}$
Evaluate the alternatives from a value perspective.
10. Is the conference designed to stimulate thought and advance the attendee's knowledge of performance measurement? (PMAR is!).

Conferences are educational opportunities that provide great forums for dialogue, discussion, and the chance to pick up new ideas, as well as to find out what's going on in the industry. Ours is a very dynamic industry, and this is one reason many attend conferences every year. But this year, perhaps more than ever, you will want to seriously weigh your costs versus the benefits. To learn more about our 7th annual Performance Measurement, Attribution and Risk conference (PMAR VII), please visit our website www.SpauldingGrp.com, give us a call (732-873-5700), or e-mail Patrick Fowler PFowler@SpauldingGrp.com or Christopher Spaulding CSpaulding@SpauldingGrp.com.

6. Source: Global Marketing Management, by Warren J. Keegan.

THE SPAULDING GROUP'S 2008-2009 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
February 17-18, 2009	Introduction to Performance Measurement Training	Los Angeles, CA (USA)
March 17-18, 2009	Introduction to Performance Measurement Training	Boston, MA (USA)
March 19-20, 2009	Performance Measurement Attribution Training	Boston, MA (USA)
April 21-22, 2009	Introduction to Performance Measurement Training	New York, NY (USA)
May 12-13, 2009	Introduction to Performance Measurement Training	Chicago, IL (USA)
May 14-15, 2009	Performance Measurement Attribution Training	Chicago, IL (USA)
May 20-21, 2009	PMAR VII Conference	Philadelphia, PA (USA)
July 20-24, 2009	Investment Performance Measurement Bootcamp	New Brunswick, NJ (USA)
September 15-16, 2009	Introduction to Performance Measurement Training	Boston, MA (USA)
October 20-21, 2009	Introduction to Performance Measurement Training	San Francisco, CA (USA)
October 22-23, 2009	Performance Measurement Attribution Training	San Francisco, CA (USA)
November 18, 2009	Trends in Attribution Symposium (TIA III)	Philadelphia, PA (USA)
December 8-9, 2009	Introduction to Performance Measurement Training	New Brunswick, NJ (USA)
December 9-10, 2009	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

*For additional information on any of our 2008 events,
please contact Christopher Spaulding at 732-873-5700*

Save The Date!

The Journal of Performance Measurement®
Seventh Annual International

PMAR

Performance Measurement,
Attribution & Risk

Conference

May 20th - 21st, 2009

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

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The Spaulding Group, Inc. is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Suite 700, Nashville, TN 37219-2417. www.nasba.org

INTRODUCTION TO 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:

February 17-18, 2009 – Los Angeles, CA

March 17-18, 2009 – Boston, MA

April 21-22, 2009 – New York, NY

May 12-13, 2009 – Chicago, IL

September 15-16, 2009 – Boston, MA

October 20-21, 2009 – San Francisco, CA

December 7-8, 2009 – 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:

March 19-20, 2009 – Boston, MA

May 14-15, 2009 – Chicago, IL

October 22-23, 2009 – San Francisco, CA

December 9-10, 2009 – 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.



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, over 2,000 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). The two-day Advanced Performance Measurement Class combines elements from both classes and expands on them.