

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, we focus 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

TIMING OF CASH FLOWS – ON A DAILY BASIS

We know a software vendor who is considering the following: to allow clients to weight the timing of their cash flows on a daily basis, not just at the start-of-day and end-of-day, but at variable times during the day. This would be accomplished by providing a weighting value, from 0.0 to 1.0.

Say, for example, you want mid-day weighting. Then, you'd use the weight of 0.5. For start-of-day (when you want 100% of the cash flow included), you'd use 1.0, and for end-of-day (when you want none of the flow included, you'd use 0.0. What about 10:30 in the morning? Well, that would probably be 0.8. How about 3:00? Probably 0.1 or 0.2. What's going on here? Can we be serious?

I should first explain that I'm no fan of mid-day weighting. Many systems offer it - I just don't like it. The point of properly weighting the cash flow on a daily basis is, for example, to avoid giving credit for appreciation based solely on what you began the day with (without the flow), when in actuality, you invested the money; or, to avoid being penalized when the flow didn't take place until the end of the day. By properly assigning the cash flow, to either the start or end of the day, we achieve a highly accurate return.

But what does mid-day weighting do? I'd say it moves us from achieving a true and accurate return, to an approximation of what's true and accurate. Now why would I say this? Because to achieve the most true and accurate return, we need to revalue the portfolio at the time the cash flow occurs. We value the portfolio at the start-of-day (i.e., by using the prior day's closing position), when we use start-of-day processing; when we use end-of-day processing, we value the portfolio at the end of the day. When we take the flow in during the middle of the day, we surely won't be revaluing the portfolio at that time.

The timing decision has to do, in general, with when you learned of the flow. If you find out at the beginning of the day, then you use start-of-day processing. If you find out at the end-of-day, then you use end-of-day processing. I guess this variable weighting is to allow you to say that you learned about it at 11:15, so you want to weight it based on this timing. But what if at that point, you invest 100% of the assets? Is it still fair to say that it was at a 0.6 weighting?

By allowing this variable weighting, we're moving away from an exact return method, back to an approximation method. Granted, the approximation is occurring during the day, but I still question it.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

**Thinking Through Fixed
Income Attribution –
Reflections from a Group
of French Practitioners**

**Performance Compliance
Challenges for Portfolio
Managers**

**Interview - Alicia Licata,
CFA Institute**

**Performance Attribution and
the Accuracy of Detecting
Timing and Selection Skills.**

**Concentrating Performance
Attribution Information**

**An OAS Framework for
Portfolio Attribution Analysis**

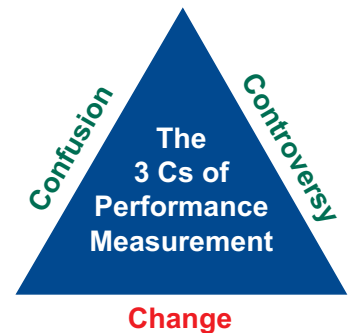
THE TIMES, THEY ARE A CHANGIN’

A year ago, AIMR became the CFA Institute. This coming January, the AIMR-PPS® will go away, to be replaced by the GIPS® standards.

The latest thing to be happening deals with the Investment Performance Council (IPC), of which I am a member. In order to gain greater involvement from the country sponsors, the plan is to eliminate the IPC, and replace it with a council, made up of country sponsors. In addition, there will be an executive committee, made up of both country sponsor representatives and the chairs of the “permanent committees.”

The executive committee would be the final decision point for changes to the standards. This smaller, nimble group, is expected to get things accomplished in a more efficient manner.

You definitely have to pay attention, given the amazing amount of activity going on.



THE IRR – HANDLING THE ITERATIONS

In the examples we’ve shown in this newsletter, I typically place a table, showing the values I tried in my trial-and-error process. Recently, a few readers have pointed out that the XIRR in Excel accomplishes this process for us (i.e., I don’t need to use the table and do the process manually).

One individual added the following to his suggestion for using the XIRR:

“I recognize that XIRR() has some practical drawbacks: first, the formula provides annualized figures which do not always fit our needs. Second, the annualization assumes 365 days per year which causes problems if there is a leap year within the period. What I usually do to circumvent these two problems is to use XIRR() together with the function YEARFRAC() in a quite straightforward way. These two functions provide a lot of flexibility.”

I was aware of the XIRR function, but not the drawbacks noted by the reader. One reason I don’t use the XIRR is that I don’t find it that easy to employ – for me, it’s easier just to construct the actual formula and do the trial-and-error. It doesn’t take that long. Another advantage is that the manual process shows what’s going on, when trying to explain how the process of iteration works. While I haven’t tried it yet, I think it will also be helpful when trying to diagnose the situation when you get multiple answers to the problem. We’ll take this subject up in a future issue.

2005 Performance Presentation Standards Survey

The deadline to participate in the 2005 Performance Presentation Standards has now passed. We thank everyone who submitted their responses and we will now begin compiling the results.

The detailed results will be available in the Fall 2005, please stay tuned for the results.



WE'RE CELEBRATING – 15 YEARS!

This month marks The Spaulding Group's 15th year in business. A lot has happened with the industry during this time, and our role in it has changed, too: our focus has narrowed quite a bit, while the number of products and services we offer has increased. In addition, we now find ourselves supporting a broader market, as we are now engaged to a great extent in the broker/dealer side of the business.

One true pleasure has been the opportunity to meet so many fabulous people. While I know it's a cliché, the world definitely has gotten a whole lot smaller.

We've also been blessed with the fabulous people we have in our firm. Much of our success is due to their hard work and dedication.

WE'RE CELEBRATING – NEW EMPLOYEE / NEW OFFICE

We're very pleased to announce that John Simpson, formerly of Integrated Decision Systems, has joined our firm as Vice President, West Coast Operations. John worked for IDS for over 20 years and is well known to many involved with investment performance.

John will head up our new California office. We've been wanting an office on the west coast for some time, and are quite pleased that we're accomplishing it with John.

KEEP THOSE CARDS & LETTERS COMING

We appreciate the occasional e-mail we get regarding our newsletter. Occasionally, 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.

THE SPAULDING GROUP'S 2005 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION	DEADLINE
September 12-13	Introduction to Performance Measurement Training	New York, NY (USA)	September 9, 2005
September 14-15	Performance Measurement Attribution Training	New York, NY (USA)	September 9, 2005
October 4-5	Introduction to Performance Measurement Training	Toronto, Canada	September 30, 2005
October 6-7	Performance Measurement Attribution Training	Toronto, Canada	September 30, 2005
October 17-18	Introduction to Performance Measurement Training	Boston, MA (USA)	October 14, 2005
October 19-20	Performance Measurement Attribution Training	Boston, MA (USA)	October 14, 2005
November 2	Fixed Income Attribution (FIA™) Symposium	New York, NY (USA)	November 1, 2005
November 7-8	Introduction to Performance Measurement Training	Los Angeles, CA (USA)	November 4, 2005
November 9-10	Performance Measurement Attribution Training	Los Angeles, CA (USA)	November 4, 2005
November 16-17	Performance Measurement Forum	Brussels, Belgium	November 11, 2005
December 1-2	Performance Measurement Forum	Orlando, FL (USA)	November 25, 2005
December 6-7	Introduction to Performance Measurement Training	Washington, DC (USA)	December 2, 2005
December 8-9	Performance Measurement Attribution Training	Washington, DC (USA)	December 2, 2005

For Additional information on any of our 2005 events, please contact Christopher Spaulding at 732-873-5700

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

Phone: 1-732-873-5700

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E-mail: info@SpauldingGrp.com

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:

September 12-13, 2005 New York, NY

October 17-18, 2005 Boston, MA

November 7-8, 2005 Los Angeles, CA

December 6-7, 2005 Washington, DC

15 CPE Credits upon course completion

PERFORMANCE MEASUREMENT ATTRIBUTION

A day and a half devoted to this increasingly important topic. The Spaulding Group, Inc. invites you to attend Performance Measurement Attribution on these dates:

September 14-15, 2005 New York, NY

October 19-20, 2005 Boston, MA

November 9-10, 2005 Los Angeles, CA

December 8-9, 2005 Washington, DC

11 CPE Credits upon course completion

These programs may qualify for the CFA Institute's Professional Development Credit. If you are a member of the CFA Institute, please refer to their website to determine whether this program meets the criteria for CFA Institute PDP credit, to calculate credit hours, and to verify documentation requirements. www.cfainstitute.org/pdprogram

*Customized In-House Training is also available.
Please call or email for additional details.*