

WHAT'S NEW ---

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CBT MARKET PROFILE: As we go to press with this Newsletter, we are about to turn on the CBT Market Profile data feed.

(Story on page 4)

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UNDERLYING ASSUMPTION OF INTERMARKET STRADDLES WITH PERPETUAL INDICES™: An underlying assumption to the process introduced in our article is that every commodity has a price rank within its own industry. (Story on page 4)

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THE APPLE QUICKTRIEVE™ DISK AND MANUAL: We regret that we are late in producing the Apple QUICKTRIEVE and manual, but it is now nearly complete. (Story on page 6)

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COMMITMENTS OF TRADERS REPORT: The CFTC took over responsibility from the Commodity Trading Authority several years ago and continued to publish what is known as the "Commitments of Traders Report". (See pg. 4)

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NEW COMPETITIVE DATA SOURCES: New "competitive" data sources seem to crop up almost daily, and often they compare their prices with CSI. (Story on page 5)

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SPECIAL NOTE ABOUT OSCILLATORS FORMED FROM PAIRS OF PERPETUAL INDICES: The analyst who is accustomed to viewing oscillators of moving averages knows that the amplitude of such oscillators are boundless and not necessarily in control. (Story on page 5)

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HARDWARE OUTAGES: As this newsletter was being prepared we suffered a very serious hardware failure. (Story on page 5)

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PAST WEEK DAILY DATA AVAILABILITY: (Story on page 6)

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OFF HOUR CUSTOMER SERVICE SUPPORT: CSI will continue to provide 9 AM - 5 PM Saturday Customer Service Support. (See page 6)

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 ™ PERPETUAL INDEX is a service mark of CSI
 ™ QUICKTRIEVE is a trademark of CSI

MORE ON "HOW TO STRADDLE YOUR WAY TO THE BANK"

Customer Question and Answer Session with ROBERT C. PELLETIER Regarding Intermarket Straddles Based on the PERPETUAL INDEX™

Customer questions have been compiled regarding last month's published article, "How to Straddle Your Way to the Bank", and for your benefit they are reproduced here. We received an overwhelming response to this article. Over 500 calls and letters were taken by our office on this new promising technique.

1. What do you mean by straddle?

In commodities, the simultaneous matching purchase of one commodity with the sale of another commodity. The delivery month should be as close to the same as possible in both commodities.

2. What do you mean by spread?

A gap in a quotation between buying and selling prices, e.g. the difference between the purchase of one futures delivery month against the sale of another delivery month of the same commodity.

3. What does "economically substitutable" mean?

The term "economically substitutable" is used to describe commodities that have similar economic effects. In other words, a commodity such as Corn could substitute for Wheat as a food, or a feed grain, and vice versa. It depends upon the results the trader is attempting to achieve. T-Bonds could have some substitution effects with gold, because depending upon the interest rate, an investor may wish to hold Gold rather than T-Bonds. When interest rates are low, the investor may wish to gamble that the appreciation of Gold will exceed the low return of T-Bonds.

Bankers by statute (Con't on page 2)

cannot invest in Gold, so they tend to abnormally push up the price of bonds with their uncommitted loan funds. The PERPETUAL INDEX user, recognizing this, could sell bonds and buy Gold at the appropriate time to benefit when either market reached some extreme.

4. What factors should be used to determine what set of commodities to be traded as opposed to others? Is it the reliability of the commodity or the size of the spread?

The commodities that should be chosen to engage in the PERPETUAL INDEX straddle opportunities should be based upon predictable amplitudes in the oscillating difference between any pair of indices. If the average of all positive amplitudes is 20 points, for example, and the maximum differential is 30 points, or 50% higher than the average over a five or ten year period, then this pair of commodities could be an excellent medium for engaging in the intermarket straddle. There are only general rules to follow. The risk one assumes depends upon how much profit is expected and how often one would like to enter the market for a given straddle position. In other words, the more selective you are the less general risk you will assume.

5. How many pairs must one analyze in order to obtain a good trading opportunity daily?

Our observation of many oscillators of differing pairs of commodities suggests that there is approximately one trade per year per pair that will represent an excellent opportunity for profit. I have seen many cases where returns are many hundreds of percent on margin. Therefore, the number of pairs one should study will depend upon how often you would like to trade. In 50 markets that are paired off two at a time, about 1250 pairs of straddle opportunities are represented. However, only slightly more than 200 of these have the proper economic substitution effects. Therefore, if you follow 50 markets, you will roughly experience one good trading opportunity per day over a one year period. It is suggested, however, that users engage this new unproven trading technique slowly and tackle one industry at

a time. The more data that you are able to observe, the better your understanding of the chances for success. We feel the risk in this technique is far less than in position trading, but there is also a great deal of work to be done to identify the trading opportunities. This work must be done by the user. CSI cannot do it for you and still preserve our non-advisory policy.

We have just begun working on this and can't be more than a couple of weeks ahead of our customers in identifying opportunities. We will be learning the merits of this technique with you and will pass on our findings as such significant events occur.

6. Are the draw downs severe using a straddle?

The draw downs in straddle trading are definitely not as severe as in position trading, provided that you enter your position when the amplitude of the oscillator is very positive or very negative. If you are willing to wait the required one year on the average per pair of commodities, then the draw down should be quite insignificant. If you want to trade more actively, there could be greater risk. We prefer the conservative approach and can't emphasize enough the need for evaluating large amounts of historical information before entering the market with your straddle position.

7. Can one enter several stops in hedging?

You should follow the straddles with trailing stops and trade in the direction of the index difference (oscillator) trend just as you would any other trading plan. The biggest expense in straddle trading will be the commission you are obliged to pay to the broker. You should, therefore, weight the cost of the commission against the possibility of being stopped out of your trade. You may want to re-enter that trade when the straddle direction resumes.

8. What would be the base of the entry point to the market if we are dealing with a constructed artificial index?

The index that is used to identify these straddles is not an artificial quantity, it is based upon the price of the

market forward four or five months and will move with the market. If the difference between the two indices widens, the price of those two markets will move further apart. A convenient way to base your market entry point is simply to take the closing price difference the day the index differences suggest market entry, and enter the market at that particular price differential. You can do this at the opening, or you may find a more favorable differential during the day. If your straddle pair involves two different exchanges, then you are going to have to tell your broker to maintain the dollar difference between the markets when he puts on your straddle. Of course, it is absolutely mandatory that the two legs of the straddle be maintained at a constant level.

If Soybeans is 3.5 times as expensive as Oats, for example, and you see an opportunity to sell Soybeans and buy Oats, then you should sell two Soybeans and buy seven Oats.

9. What futures contracts should I be looking at and trading?

The contracts that you should trade lie approximately six months forward of the current date. This is necessary because the indices look at the market approximately four or five months forward and the average straddle duration will consume approximately three months. You should view the markets where the indices view the market. A key to this approach is the forward positioning point where the market is monitored with the PERPETUAL CONTRACT on which the index is based.

10. The article states, "the analyst should verify that past behavior is sufficiently under control to warrant market entry." How do you know that the market is "under control"?

This has been covered in number 4.

11. Regarding the scales used for the oscillators, are they the percentage difference or the point difference?

The scale for the oscillator is a point difference between the two indices. It is not a percentage difference. However, when the indices hover around 100, they are nearly equivalent.

12. When following intermarket straddles with the CSI PERPETUAL INDEX, which actual real contracts (how far distant) should be followed in making the trade?

The #50 CSI PERPETUAL INDEX is formed from CSI's #49 ("greater than three months forward") PERPETUAL CONTRACT. Both the #49 and the #50 "PERPETUALS" view the market on the average of four and one half months forward of the current date. Experience has shown that the average straddle duration varies but lies in the vicinity of from one to five months. We, therefore, recommend taking your entry position in a delivery month roughly six months forward of the trade inception date with the anticipation that the position will be covered approximately three months prior to expiration of the contracts traded. This should provide ample time to wait out some situations which may take longer than the approximately three month average straddle duration. If such time is still too short a roll forward to the next distant contract of each commodity will be necessary.

In the average case, the oscillator will then monitor the market during the trade duration midpoint of your average position. Incidentally, users may be tempted to form their own index so it is important to note that an index based on strictly an average of all forward contracts and not upon PERPETUAL Data will not work reliably because of the lack of data continuity. Step function aberrations in price caused by contract roll forward and the uneven and more distant price focal point for all commodities make this method of index calculation extremely imprecise and unmanageable for day-to-day market decision making. The same promising effects are not likely to result without PERPETUAL CONTRACT input.

13. As an approximation, how can I access the on going profitability of a given intermarket straddle?

The best way to do this is by making your straddle decisions with an oscillator based on the difference between two #50 PERPETUAL INDICES. Then for the "long" leg compute the difference in dollars between the #49 PERPETUAL CONTRACT today minus the entry price of the straddle for the #49 PERPETUAL CONTRACT. Add to this quantity the dollar

difference for the short leg by adding in the profit (or loss) of the #49 short contract straddle entry price minus today's price of the #49 contract you sold short. This total less commission will roughly represent the profit or loss to date of your intermarket straddle.

14. Is this new trading method involving intermarket straddle with PERPETUAL INDICES proven reliable and has it been done before in the past?

This method has not been tested or proven with real dollars. Our contribution is solely to identify the assumptions and the background theory. We will consider publishing documented user experiences, but our main thrust will be in educating users to build their own unique system of trading. We anticipate traders will make many mistakes in getting started so we cannot emphasize enough the need for considerable study before getting started.

This method has not been done before but neither were PERPETUAL CONTRACTS until CSI invented them 20 years ago and made them commercially available 6 years ago. The work behind this straddling approach has been enormous. Nearly 15 years of research went into this relatively simple concept of commodity price ranking. Whether it has merit will depend on the user and his use of oscillators and other tools under development which should simplify the use of this and other exciting tools to be announced. #

STRADDLE ASSUMPTIONS.....Cont'd from page 1

In other words, Corn is generally more expensive than Oats. Wheat is more expensive than Corn, and Soybeans more expensive than Wheat, etc. This is true of Livestock products, Precious Metals, and certain other groups of commodities. The index is formed based upon this theory. The indices dictate when the price rank deviates from the norm, and it is closed out when prices return to the norm. This is a very natural approach to trading the commodity markets, and as long as not too many people find out about it, it should work quite well. The customer who is willing to put forth some effort may uncover opportunities that conventional methods cannot reveal. #

CBT MARKET PROFILE....continued from page 1

The CBT Market Profile will offer either 15 or 30 minute interval data throughout the day on the nearest two contracts of about 30 commodities. Each call a customer makes to our system will yield the entire market profile for that particular set of commodities since the opening bell.

You will use your QUICKTRIEVE System to collect the data, and a second disk will be provided which will display the Market Profile for each contract. We are also supplying a volume indicator computed from tic-volume. This may or may not be helpful but is supplied so that the substance of some of the liquidity data bank information (regularly released late after markets close) may be obtained during trading hours. We are also in the process of modifying QUICKTRIEVE so that 20 days of historical information on a 15 or 30 minute interval basis can be stored on your disk for analysis purposes. Apple users may receive this information in the standard format we already use which can be plugged into the already workable study capabilities. Commodore and IBM users will receive the information in a more flexible format. We hope to allow all the studies on the QUICKTRIEVE System to be used on this real-time data.

The archiving portion of this product won't be available until at least two or three months. We hope to have the basic Market Profile working, however, in a week or two. We will send a separate offer to customers involving the Market Profile which will identify our price schedule for this service and any exchange fees that may be required. So far as we know, the CBT exchange fee will be \$20 per month. CSI charges will be similar to existing QUICKTRIEVE charges with multiple accessing. As soon as we come up with a price list, we will notify all customers. A separate user I.D. will be required, and the price will be more if you choose 15 minute interval data in place of 30 minute interval data. #

COMMITMENTS.....Continued from page 1

This report now covers nearly all commodities traded in the United States. The commodity trading authority published the report only on what was then known as

regulated set of commodities. This report reveals the breakdown of the Open Interest into Commercials, large traders, and small traders and can be obtained from the U.S. Government Printing Office at a subscription price of \$36 per year. If you are interested in receiving this report, call Gale Stover at (302) 254-8630. The report is published on or about the 11th to the 15th of each month but is only accurate through the last trading day of the preceeding month. In other words, it is always about two weeks late. The Commitment of Traders Report can substitute, on a monthly basis, for certain liquidity data bank information because of its emphasis on commercial trading interests. #

COMPETITIVE DATA SOURCES..Cont'd from pg. 1

One particular "competitor" says his prices are a percentage of CSI, but he doesn't tell you until after you have purchased the data and given him your credit card number that he is going to charge you for postage, handling, and diskettes. In addition, his representation that he charges a certain percent of CSI prices is untrue. He actually charges much more, and when he adds in the other charges, his costs are usually higher. His limited data may also not be cleaned, ready for use. If you would like to give this competitor an opportunity to sell you data, make sure he lives up to his percentage claim and refuse to pay the disk, handling, and postage fees. Of course, if you are making a large purchase, ask our Marketing Department so we can bid on your job.

Competitors who offer PERPETUAL CONTRACT or INDEX data do so illegally. CSI has a federal service mark for PERPETUAL INDICES and PERPETUAL CONTRACTS. These terms cannot be used without referencing CSI as their source. CSI tries to be very innovative in its products and services, and we are interested in helping customers improve their trading performance. We are often annoyed by firms who show no originality and choose only to copy the work that we have done. It is obvious they are interested in profit and not in long standing customer support and the furtherance of this industry. We noticed our Sherlock Holmes ad illustration on the front page of a Daytona newspaper with all the copy changed to help the newspaper

feature various departments. It appears that pride is not one of this newspaper's virtues. #

SPECIAL NOTE ABOUT PERPETUAL INDEX FORMED OSCILLATORS.....Continued from page 1

In other words, no matter how extreme a value may be, a larger extreme can later take place. This is not a very gratifying condition for the technical trader who is looking for a low risk market entry point. No matter how extreme a condition he may choose, the difference between any pair of moving averages could be even greater than anticipated. Failure to recognize this could produce devastating losses for the technician.

With oscillators formed from two related commodities as portrayed from two PERPETUAL INDICES, the situation is not at all the same. In this case the product substitutibility keeps the oscillator amplitudes from going beyond some predictable norm. Commodity price rank has a great deal to do with making PERPETUAL INDEX difference analysis a safe mechanism for investment. Over the past 20 years only one group of commodities known to us have broken away from traditional price rankings. You probably already know of which we refer.

Due to OPEC's influence on oil prices only oil has moved above many other of its substitutable products. Had the base period of our indices been 1967 and heating oil was a commodity in a given straddle, then, with the change in rank for oil, the straddle would not be reliable. Fortunately, CSI's base period, another key to the reliability of this process, is very recent and all commodities involved are within striking distance of their base period rank. #

HARDWARE OUTAGES.....Continued from page 1

This hardware failure propagated through more than one of our customer data delivery systems. This problem left users unable to gain access on the weekend of June 1st and 2nd. Although service has been restored, the system will be a little slower and we will take slightly longer to fill orders. We will be refurbishing our hardware and replacing several failed parts over the next week or two. #

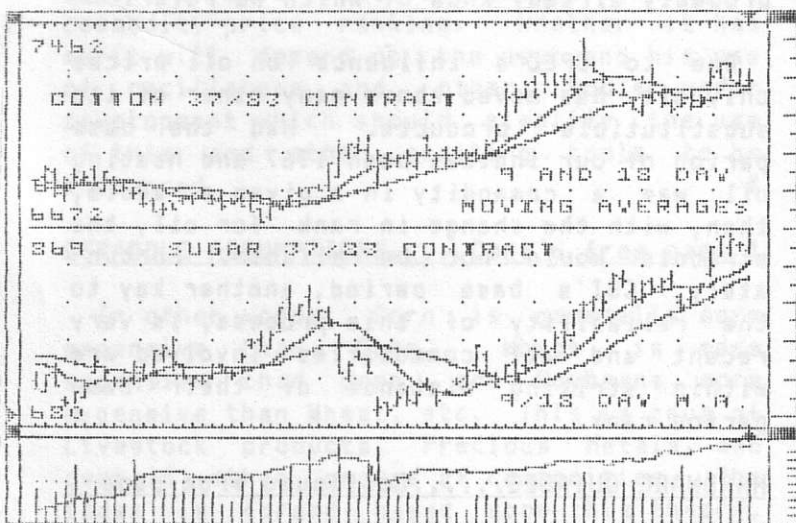
PAST WEEK DAILY DATA.....Cont'd from page 1

In our last newsletter we cautioned users not to get more than two weeks out of date in their daily collection because of some temporary disk limitations at our computer site. We now can supply a full three weeks of past daily data to all QUICKTRIEVE users. #

APPLE QUICKTRIEVE.....Cont'd from page 1

The chart shown below demonstrates how one can place more than one contract on the screen at one time with moving averages superimposed. In fact, in using the indices, one can project on the screen eight indices at one time. Please note the capability to annotate each chart with your own descriptions.

We hope to begin mailing the Apple QUICKTRIEVE one or two weeks after the mailing of this Newsletter for those who have been waiting for an Apple Disk. If you haven't ordered the new Apple Disk or the Study Disk, or any other of our products, an order form is enclosed. #



OFF HOUR SUPPORT.....Continued from page

However, during the interval 5 PM Saturday until 8 AM Monday, an answering service will take your emergency calls. An assigned Customer Service representative will then be notified and your call will be returned. Such calls should be limited to global computer outages not necessarily individual customer problems. #

ADVERTISING INSERT: Martin D. Weiss Research, Inc. has enclosed for your perusal information on a book dealing with traders and computers. NOTE: Any advertisements enclosed with CSI's monthly newsletter, or any comments, descriptions, or reviews of any products included in our newsletter, other than those concerning CSI's own products, are not to be construed as endorsements or recommendations by Commodity Systems, Inc., but are for information purposes only. #

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