C S I   N E W S   J O U R N A L .

WHAT'S NEW ---
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AN IMPROVED
MONEY MANAGEMENT TECHNIQUE
REVEALED FOR THE FIRST TIME

An age old method used by professional gamblers may be useful to the active trader as a means of money management. Martingale, according to Webster's dictionary, is a scheme for doubling your bet size following losses. The system is named after a successful 19th Century gambler who frequented the casinos of the French Riviera. In a converted form the idea can be transformed into a mild progression which requires a slightly increasing wager level following losing trades and an equal or decreasing unit wager following winning trades.

To use the progression, bet size and win level per contract are assumed to remain constant. Admittedly, this assumption may substantially deviate from reality, but in the long run expected values should prevail. Another major assumption is that each bet is totally independent of all other bets.

Given that a Martingale trade series represents the goal of achieving the successful result of winning one single unit, it has been shown (see Money Management For Martingale Commodity Traders by Robert C. Pelletier in Vol 4, No.3, The Journal of Commodity Trading - May 1969) that a 50-50 per unit success rate per trade can be improved to over 87% with a minimum budget of 4 times margin plus 6 times average trade losses. Committing 5 times margin will increase the success rate to over 90%. It is always possible to improve winning series odds by adding to your investment reserve. And such odds can be calculated with the method presented in the above referenced article; however, no level of finite capital can deliver certain success.

The Martingale progression may be used to set the number of contracts to trade from one trade to the next. The modified progression presented here isn't a pure Martingale doubling _ up system; consequently, a string of losing trades will require more than one win to produce an overall winning conclusion. Because of the progression rules, one need not win as often as one loses to come out ahead.

The Martingale progression identifies to the gambler the number of units to wager. The number of units to wager for the modified Martingale is always the sum of the first and final wager quantities in the loss sequence series. Whenever a winning bet occurs the first and last quantities of the progression list (derived from loss units) are removed from the list, thereby revealing the number of units to wager in the next bet.

Since the progression rules are easier to state than to conceptualize, a simple example should make the total idea clear. All modified Martingale progressions begin with a unit of 1. Here is an example where trades are substituted for bets:

Case A

Trade #	Progression List	Units Wagered	(W)in (L)oss
1	1	1	W

In the above Case A example one unit was "bet" on trade number one and the outcome was a win. The series ended with a one unit win from the single entry progression list. Consider Case B and a few other examples below, all of which begin with a loss and invoke the relatively gentle modified Martingale progression:

Case B

Trade #	Progression List	Units Wagered	(W)in (L)oss
1	1	1	L
2	~~1, 1~~	2	W

In Case B trade number one was a loss, so the progression list was extended for the next trade by showing the old progression list plus the number of units (1) lost in the previous wager. Since trade number two is the sum of the earliest and latest quantities in the progression list, two units were wagered (1 + 1) for trade 2 and the first win of the series occurs. Since one more win (2) than loss (1) occurred, the series ends with the sought for result. Consider another possible sequence:

Case C

Trade #	Progression List	Units Wagered	(W)in (L)oss
1	1	1	L
2	1, 1	2	L
3	~~1~~, 1, ~~2~~	3	W
4	~~1~~	1	W

In Case C trade number 1 was a loss of one unit. The single unit lost is brought forward and added to the progression list making trade number 2 (the sum of highest (1) and lowest (1) numbers in the progression list) a 2 unit trade. Since trade number 2 ended in a loss also, the 2 unit loss is carried forward to trade number 3. In trade number 3 the end numbers determined the next wager (1 + 2) or 3 units. This produces a 3 unit win which represents a break even result. Since the end numbers are crossed off (because of the win), the progression list is reduced to a single 1 ~~and the series begins as though positioned~~ on trade 1 of either Case A or Case B.

Carrying the illustrations a step further to Case D consider the following:

Case D

Trade #	Progression List	Units Wagered	(W)in (L)oss
1	1	1	L
2	1, 1	2	L
3	1, 1, 2	3	L
4	~~1~~, 1, 2, ~~3~~	4	W
5	1, 2	3	L
6	~~1~~, 2, ~~3~~	4	W
7	~~1~~, ~~1~~	2	W

Trade number 1 was a loss so the unit lost is introduced on the next trade by adding one to the progression list. In trade number 2, the required wager was for two units, but the ensuing loss required the 2 (wager quantity) be added to the progression for trade number 3. Trade number 3 also produced a loss of 3 units (the sum of the end numbers of the progression list) making it necessary to add a 3 to the progression list for trade number 4. Trade number 4 was a 4 unit wager winner which permits the trader to omit the end numbers of the progression list. Trade number 5 could have ended the series with a 3 unit wager had the outcome been a win; instead a loss required a 3 be added to the progression list for trade number 6. Since trade number 6 required a wager of 4 units (the sum of the earliest and last wager) and the outcome was a win, this leaves a progression list of a single 2 for trade number 7. The single 2 has been rewritten as 1,1 for trade number 7, a necessary requirement to minimize risk as explained below. Fortunately, our example produced a win of 2 units (the sum 1+1 of the earliest and final values in the list) closing out the series with one win greater than the total number of losses.

In the modified Martingale the goal is to keep the individual wager levels of the remaining series values in terms which are as low as possible. A progression list that comprises a leading 2 or a single 2, as could have been shown for trade number 7 of Case D, could easily have been written and, as a matter of fact, was written as a 1,1; similarly, a progression list of 3,4 which might have required a wager of 7 units could equivalently be written as 1,1,2,3 thereby requiring a recommended next trade level of 4 units (the sum of the end readings). It may take a bit longer (more trading) using such an approach, but margin costs will be substantially minimized and so will risk.

Finally, to illustrate more thoroughly the practice of progression list subdivision (introduced in the preceding paragraph), a final Case E is offered for examination:

Case E

Trade #	Evolved Progression List	Lowest Risk Progression List	Units Wagered	(W)in (L)oss
1	1	1	1	L
2	1,1	1,1	2	L
3	1,1,2	1,1,2	3	L
4	1,1,2,3	1,1,2,3	4	L
5	1,1,2,3,4	1,1,2,3,4	5	L
6	1,1,2,3,4,5	1,1,2,3,4,5	6	L
7	1,1,2,3,4,5,6	1,1,2,3,4,5,6	7	W
8	1,2,3,4,5	1,2,3,4,5	6	L
9	1,2,3,4,5,6	1,2,3,4,5,6	7	W
10	2,3,4,5	1,1,3,4,5	6	W
11	1,3,4	1,1,2,4	5	L
12	1,1,2,4,5	1,1,2,4,5	6	W
13	1,2,4	1,2,4	5	W
14	1,2	1,2	3	L
15	1,2,3	1,2,3	4	W
16	2	1,1	2	W

To produce the "lowest risk progression list" from a given "evolved progression list" the trader should attempt to replace each list of the evolved list with either the sequence 1,1,2,3,4 ...., the sequence 1,2,3,4,..., or some other similar but gently increasing sequence which displays a high plus low unit wager quantity that is less than the top reading of the evolved list. Of course, the sum of the replacement sequence must be equal to the sum of the evolved sequence. The result will be a more mild progression that minimizes trading risk and required capital reserves.

The above Case E holds progression lists ("evolved" and "lowest risk") which are equivalent for the first nine trades. On trade number 10 the evolved progression of 2,3,4,5, which produces a trade total of 7, can be replaced by 1,1,3,4,5 which identifies a a lower trade total of 6. On trade number 11, the evolved list of 1,3,4 can be rewritten as 1,1,2,4 with no immediate effect on units wagered. The remaining progression lists are nearly equivalent for the final five trades of Case E.

As can be seen by separately summing the units wagered for losses and for wins, the wins exceed losses by 1 as should be the result whether or not the evolved progression list is replaced by the "lowest risk" progression list.

The progression of Case E had a maximum single trade investment of seven units wagered and a loss/win ratio of 9 to 7; by comparison a pure Martingale doubling up system would have required a maximum per trade investment of 64 units (the required size of the seventh wager) and a loss/win ratio of 6 to 1. An unusually long string of losses in an unmodified Martingale doubling up scheme could easily result in a formidable capital outlay, whereas the ideas present here substantially reduce risk and may compensate for a mediocre trading system.

The above technique should help to minimize risk provided the method employed for calling market movement is sufficiently reliable to produce average profits which (after commission costs) are at least as much greater than losses than is the ratio of losing to winning trades. For example, if net profit is, on the average $300 per trade and average net loss is $100 per trade then (in the long run) the ratio of losing to winning trades must be no greater than three to one.

Before modifying your habits of trading after reading this improvement on an old money management technique, we urge all to study the idea thoroughly so that the potential risk and the mechanics are well understood. Be mindful that you can tone down the risk, but it never can be completely eliminated. The process of winning is often slow and painful, so never get into a position where any given trading opportunity can drive you out of business. Trade only with funds you can afford to lose because losing is a natural part of the trading game.

In using this money management idea please note that if average winning trades deliver a multiple of funds greater than average losing trades, then a given series should not be played out in full. In fact it is desirable and advantageous to terminate a profitable series prematurely because only at the beginning of a new series is the level of risk at its lowest.

It was pointed out at the beginning of this article that bet or trade independence is absolutely necessary to achieve an advantage. This means that you may not average down or average up in the same trade position by adding to losses to achieve an artificial advantage.

Independence could come about through one or several approaches which may follow several unrelated markets. In so doing, however, the average expected net profit from market to market should be roughly equivalent. If your Treasury Bond system returns an average net profit after losses and commissions of $1000 per trade and your system for corn returns average net profits of only $250.00, then corn trades can be mixed with Treasury Bond trades only if a unit of corn represents 4 corn contracts per T. Bond contract. Substantial thought should be given to independence of trading mediums and methods and one should not ignore the simultaneous effects of dollar influence that affects value based agricultural and industrial products because a sudden jump or drop in the dollar will detract from the independence expected from dissimilar commodities. The only way to compensate for dollar dependence other than thoroughly mixing foreign product markets in your portfolio is to maintain a balance of long and short positions in dollar denominated trading mediums.

And finally, we offer this idea only as a thought toward managing your funds in a manner that may, for some, improve on your chances of success. Unless you are possessed of a huge capital supply, you will inevitably experience an unmanageable string of losses that will consume your capital. You must always be aware of this possibility and set your total series investment stake at some manageable level that will represent a small percentage of expendable funds and pledge never to exceed such an investment limit. This will inevitably result in giving up and taking a loss on some losing series, but the painful act of accepting a trading defeat may be your least cost alternative.

BULK DATA SALE CONTINUED

The BULK DATA SALE which began last year has been so popular that we have decided to extend it through March, 1988. The current offer is for normal commodity contracts only and excludes London data, PERPETUAL CONTRACT Data, stocks, options, indexes and mutual funds. Daily volume and open