CSI NEWS JOURNAL

HOW IMPORTANT IS ACCURATE DATA TO YOUR TRADING SUCCESS?

"Data integrity outweighs all other considerations by such a heavy factor that it's the one thing that makes or breaks a product or a player in the marketplace." Martin Marion, Wall Street Computer Review

During the month of August 1990, CSI logged 25 errors in price, volume and open interest from among over 100 U.S. and foreign commodities. These involved over 600 open-high-low-close-volume and open interest readings per day and thousands of price and volume readings for stocks, indices and mutual funds. The 25 errors reported for August were spread over some 300,000 price volume and open interest entries. The likelihood that a given customer's portfolio was involved is minimal.

By way of comparison, we went to the expense of drawing down the data of an emerging competitor. We discovered that, based on exchange verified bulletins and reports, the competitor logged well over 1000 errors on far fewer markets over the same period. Our printed error report attests to CSI's performance and honesty in reporting errors each month. A daily user can capture corrections electronically for his unique portfolio each day. We attribute our excellent performance record to our careful methodology and redundant sources.

TRADING SYSTEMS & CONTESTS: SKILL OR LUCK?

(HOW TO ASSESS PERFORMANCE)

When a dozen or more entrants participate in a trading contest, there will only be one winner. Before you can conclude that the contest winner has used a significant skill other than what would occur by chance, an analysis of trade-by-trade performance is needed. You must consider the

WHAT'S NEWS

number of trades, the net profit, and the distribution of profits and losses. I hope to show how to distinguish the skilled from the lucky or the high probability win trading program vs the high probability loss trading program.

If your broker, trading advisor or software supplier claims to have produced a system with great profit potential, get his track record and place it through the statistical tests outlined and prove to yourself that you have a clear chance to win. Or similarly, if you have discovered a promising market algorithm, then analyze your own results to determine if you actually have a worthwhile product. I will start to lay the ground work for you in this month's newsletter. Also, on the chance that the trading approach introduced to you has great merit, the analysis supplied can give you the confidence to move forward with uninhibited purpose. In preparation, it would be helpful if you could put together a profit and loss record of enough trades to group the data into a histogram with one to ten readings per cell. In doing this exercise you will notice that the central positions will hold the most readings. The outer cells will generally hold the least number of samples.

It has been said by members of the community

that you will succeed if you have a positive expectation approach. I plan to show you that, except in the very, very long run, this is not always the case. In the extreme event, the contest winner could have logged a few obscure winning trades that are very large, but in their absence a losing system would result. If your sample size is large, then a small number of winning trades could represent a very low probability of repetition.

A reordered restart of the trade selection process from the "empirically derived winning sample" could produce an altogether different outcome. A new sequence could exhaust your capital on each of many subsequent random drawings from the same sample before you capture the rare winner(s) that will turn cumulative losses into an overall profit. On the other hand, if your positive expectation game has a small sample size then you may have a result on which you cannot draw any conclusions. Please review last month's newsletter to gain a perspective on the requirements for "certifying" a given trading approach.

Last month's newsletter introduced the idea that approximately 30 samples were sufficient to draw conclusions from a normally distributed population of profits and losses. If we require very rare and large profits to offset numerous losses in a greatly skewed (to the left) distribution of profits and losses then a much larger sample would be required.

Assuming you meet the various requirements of using a large sample size, uncorrelated parameters, robust variables, a sound verified analytical approach, a realistic design and a positive expectation game, you must now evaluate the distribution of profits and losses. This latter requirement is the missing element in most commercially available systems. Some developers have relied on the obvious, the expected value. They have, ignored the most important consideration, the distribution, which casts light

on both the probability of success and the capital necessary to achieve the expected profit.

Suppose your original winning exercise produced the following extreme (for illustrative purposes) example: 50, 20, -100, -200, -5, +10, -15, -50, -150, -50, -100, +10, -30, -70, -210, +40, -100, -75, -90, -20, +30, +40, 90, -80, -150, -190, -60, -80, +30, +15, +4000, +40, -85, -250, -40, +25, +15, +25, +30, +5
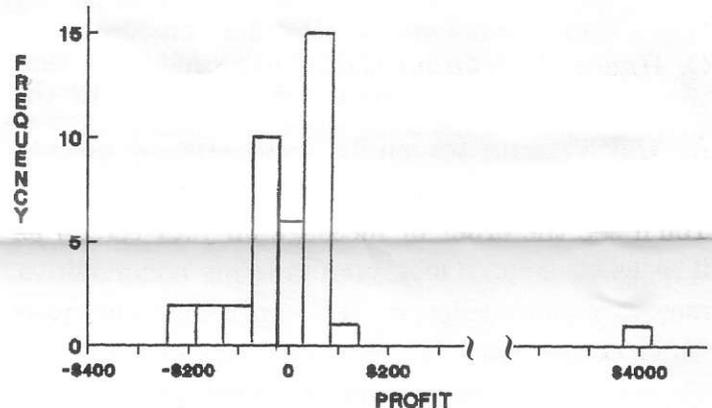
On a single contract basis the above series produced a positive profit of $1,095 and therefore qualifies to be labeled as a positive expectation system. Before trading such a system, you need to demonstrate with a reasonable probability that you can regularly achieve the positive expectation before your capital is exhausted. This is done by performing certain tests on the given sequence of profits and losses.

We will bring you more on this subject in next month's News Journal when you will be shown how to get the answers to such questions as:

1) What are my chances of achieving a winning result of X dollars with a capital outlay of Y dollars?

2) What would be my maximum drawdown in reaching a goal of X dollars profit?

3) How many trades must I make on the average to achieve a profitable result?

Look for an innovative methodology in next month's newsletter which will take any record of actual or simulated performance and answer the above questions.

Best wishes for prosperous trading,

Bob Pelletier

PROGRAMMING NOTES

We are deeply into the development cycle for the new QUICKPLOT®/QUICKSTUDY®. We are working on an innovative new study for inclusion in QuickStudy. It is described below.

INTERMARKET RELATIVE MOVEMENT™ - This new study called CSI Intermarket Relative Movement (IRM) compares groupings of up to eight different, but related, markets over a period of up to two years. With this study you can reveal alternative spread opportunities and compare market movement for daily rates of change. The study could serve as an early warning device to alert the trader as to which markets show the greatest promise without having to selectively identify several markets, one at a time, for graphic examination. It can also be used to assess risk when entering a spread. A real life example that fits this study is a spread application between Live Cattle and Live Hogs. Shown is PERPETUAL CONTRACT® data current through 9/14/90.

The IRM study in the top window shows live cattle as the solid line and live hogs as the dotted line. The relative difference is shown by the histogram. The final day of the chart shows the relative value of live cattle to be significantly greater than live hogs on a longer term relative basis. This study application tracks relative movement of any pair of markets on a scale of 0 to 100. Since live hogs and live cattle share a common consumer need, they tend to alternately exchange their respective relative importance in the market place.

The oscillation frequency of these markets follows a two to five month cycle. These study results could be of value in spread trade timing as well, confirming the prevailing market direction when used in conjunction with other technical indicators. The IRM study continually learns from expanded market volatility. The prior volatility helps to calibrate the relative movement shown in the top window. For best results, we suggest using a minimum of 15 to 24 months of perpetual contract data to drive this study. Data longevity is important to this study because relative movement is measured against past volatility. The more data supplied the better the study should work.


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DATE =    900917  LOW  =    76.76  LOW  =    51.65  Diff.=  31.284
DYNUM=         1  CLOSE=    76.99  CLOSE=    52.00
OPEN =    76.77  OPEN =    51.67  IRM L=    86.344
HIGH =    77.31  HIGH =    52.53  IRM L=    55.060
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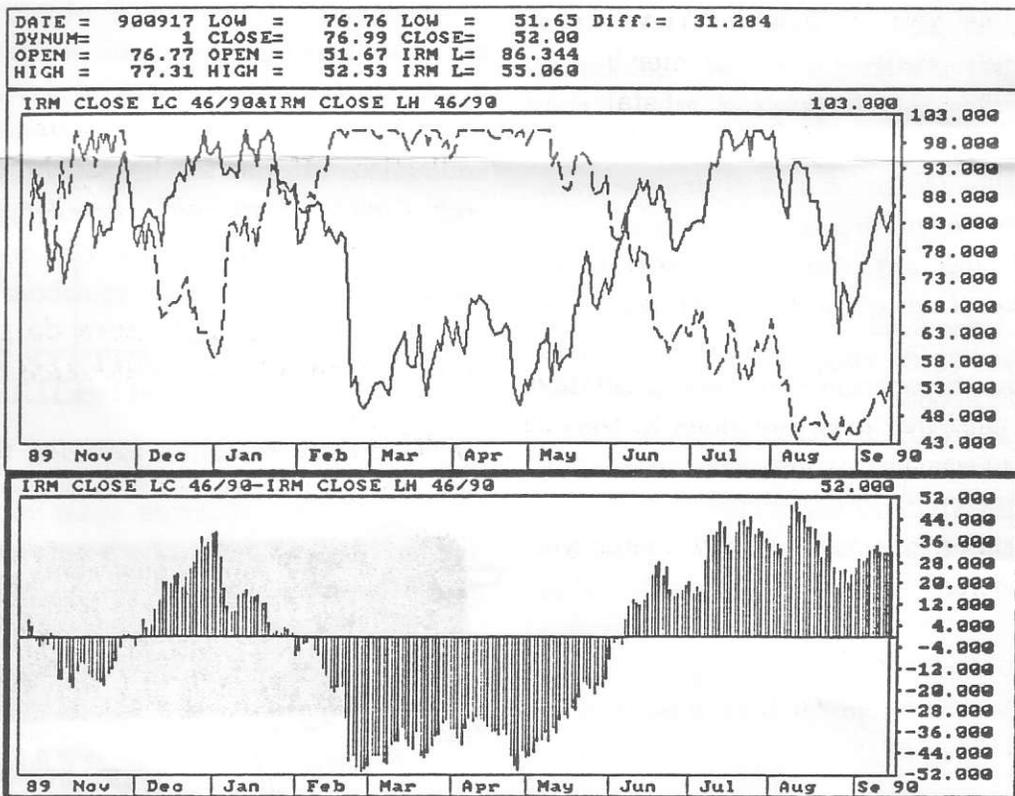
NOTICE TO OVERSEAS USERS

As a cost-saving measure, we will be reducing the use of the CSC connect procedure via Compunet in favor of the more reliable and lower cost Tymnet-USA dialogue file procedure. Our experience with the new version 4.01 QUICKTRIEVE®/QUICKMANAGER® software has been very positive for our International users. To avoid any possible service interruption stemming from reduced Compunet service, please consider ordering the new software that uses Tymnet-USA if you have not already done so.

For overseas customers who wish to continue to use the CSC connect procedure please edit your Compunet dialogue file and replace the CPS character string with EURO. We will soon be deleting the Computer Science Corp. service and use of the access code EURO will be necessary.

ASK CUSTOMER SERVICE

The QuickTrieve software system includes an electronic ordering utility that is often overlooked or misunderstood. This feature is called the Order Subsystem or the Customer Subsystem, depending on your version of QuickTrieve. It is the subject of many calls to our Customer Service department. The Customer Service staff will address a few common concerns in a question and answer format below.

Q. Can I change my portfolio and order historical data through my computer?

A. Yes, you can. Selection G on the QuickTrieve Main Menu is used for these functions as well as sending typed messages to CSI.

This menu selection brings up a new menu with the following choices:

    A) Change user portfolio.
    B) Order historical information.
    C) Enter message for CSI.

    D) Send work done this session.
    E) Print work done this session.

When you change your portfolio or order historical data, an electronic order form appears on the screen. You simply fill in the blanks with information on the data you want. When you request historical data, you'll be able to specify if you want it on diskettes or by phone.

After typing your requests, you need to take one more step to complete the order. Use selection D) SEND WORK DONE THIS SESSION to send your order to CSI. If you prefer, you can wait and send it when you retrieve daily updates.

Q. Sometimes when I change my portfolio using QuickTrieve's Change User Portfolio feature, the changes are not effective immediately. Sometimes they are. What governs the processing time?

A. Portfolio changes made through the Customer/Order Subsystem become effective when we run a copy cycle on our host computer. We do this twice each business day - once around 8 a.m. and once around 5 p.m. Your changes will be effective on the next cycle.

This means that if you send a change at 4 p.m., it will be effective for your normal evening collection. If you send your change at 6 p.m., it won't be effective until after 8 a.m. the following weekday morning.

Q. What type of messages do people send on the Customer/Order subsystem?

A. There are so many uses for this, it's hard to know where to begin. Here are a few common ones:

1. To ask any simple question.
2. To ask a service representative to call you about a more complex problem (domestic users only).
3. To give the starting file number for a phone

history order (if you don't have IBM QuickTrieve 4.0 or 4.01).

4. To make special requests for an accompanying order, such as a desire for courier delivery, non-standard volume and open interest, etc.

5. To order software upgrades or updated CSI information.

6. To tell us your new address or phone number.

Q. *How will I know if you got my order?*

A. QuickTrieve transmits Subsystem messages much like logon commands for data retrieval. You'll see the order or message on your screen as it is being sent. Once you have sent an order or message to CSI, it is erased from your QuickTrieve files.

Q. *How can I keep track of what I've ordered?*

A. This is another benefit of using the Customer/Order Subsystem to order data. It lets you keep a printed record of all orders. From the Subsystem menu shown above, just press E) **Print work done this session** to make a printout. You have to print your work before you send it to CSI.

MEET US IN CHICAGO OCT. 1 TO 28

CSI will be featured as vendor of the month at the Chicago Mercantile Exchange in the Library/Resource Center Upper Lobby level for the month of October. Many members of our staff will be manning the booth where we will be passing out literature, demonstrating some of our software and presenting our FMD 386 computer. We would like to show you what we are doing and would be happy to visit with you during that period.

Bob Pelletier will be there on October 10th and at least until noon on October 11th. Mark your calendar and pay us a visit.

SURVEY ENCLOSED

We are developing our programming schedule for 1991 and want to focus our efforts on the tools that will help you the most. In the past our customers have offered suggestions in this area. We'd like your help again.

We've listed a few projects that we're considering. Please complete the survey by ranking the projects in the order of your preference. Use 1 for your first choice, 2 for your second choice, etc. There is extra space for write-in suggestions.

Participation is completely optional, of course. We welcome all suggestions, so please add your comments on an extra page if necessary. Please return the survey with your CSI statement.

Thank you for your help. Your insights should help us plan for better products and services.

ADDITIONS TO THE COMMODITY DATA BASE

Commodity:	Long-Term Japanese Government Bond Futures
CSI Commodity #:	93
Exchange:	CBOT
Symbol:	JB
Unit of Measure:	Points
Contract Size:	20,000,000 Yen
Del. Months:	3, 6, 9, 12
1st day on file:	900927
Conversion Factor:	+ 2
Limit:	200
CSI Pt. Value:	2000 Yen
Newspaper/ CSI Price:	87.71/8771

Commodity:	Topix
CSI Commodity #:	94
Exchange:	CBOT
Symbol:	TX
Unit of Measure:	5000 Yen
Contract Size:	5000 Yen x index
Del. Months:	3, 6, 9, 12
1st day on file:	900927
Conversion Factor:	+ 1
Limit:	70.0 pts
CSI Pt. Value:	500 Yen
Newspaper/ CSI Price:	2412.5/24125