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MORE ON QUICKPLOT STUDIES

We trust that everyone had a joyous holiday season and are now ready to embark upon a prosperous and successful New Year with renewed resolve to improve his or her trading skills. We, here at CSI, have joined you in our New Years' resolutions to place improved and more innovative products into your hands that will enhance your trading skills and successes.

In the December News Journal I discussed one of the special studies, the Probable Direction Index, (PDI) that is included in our version 4.01 of the newly released QUICKPLOT/QUICKSTUDY software. PDI as I explained, is the heart of a three element trading system which includes CSI-Stop and CSI-Trend. PDI is used to determine market direction, whereas, CSI-Stop is a study on the placement of stops and CSI-Trend is a measurement of the trending or randomness of past market action.

CSI-Stop is a study that can be used as a stand alone trading system or, as it was specifically intended, a tool for setting stop orders. This study produces estimates of tomorrow's high, low and closing or settlement values as well as a buy stop, sell stop and close basis stop. The stop orders from the study of the commodity's recent action are displayed on your computer's s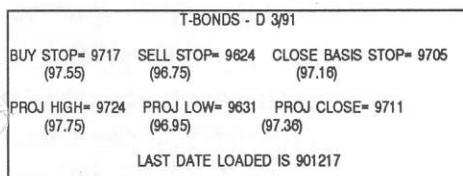creen in numeric values. Figure 1 is the screen presentation of March 1991 Treasury Bonds as of December 17, 1990. The buy stop is


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                T-BONDS - D 3/91

BUY STOP= 9717    SELL STOP= 9624    CLOSE BASIS STOP= 9705
   (97.55)          (96.75)              (97.16)

PROJ HIGH= 9724   PROJ LOW= 9631    PROJ CLOSE= 9711
   (97.75)          (96.95)              (97.36)

            LAST DATE LOADED IS 901217
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Figure 1

WHAT'S NEWS

used to close out or reverse a short position. This action preserves your capital when a retreating market becomes bullish. The sell stop is used to close out or reverse a long position to protect yourself from a downturn in an upward market while the close basis stop is used to exit the market.


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QUICKPLOT 4.01 OPEN =  96 04 TOT V= 100000 PROJ =  97.34    Figure 2
[(C)1990 CSI] HIGH =   96 17 TOT O= 255490
DATE =  901217 LOW =   95 30 BUYST=  97.60
DYNUM=       1 CLOSE=   96 17 SELLS=  96.76

T. BONDS D03/91&BUYSTOP&SELLSTOP&PROJ CL              97 28
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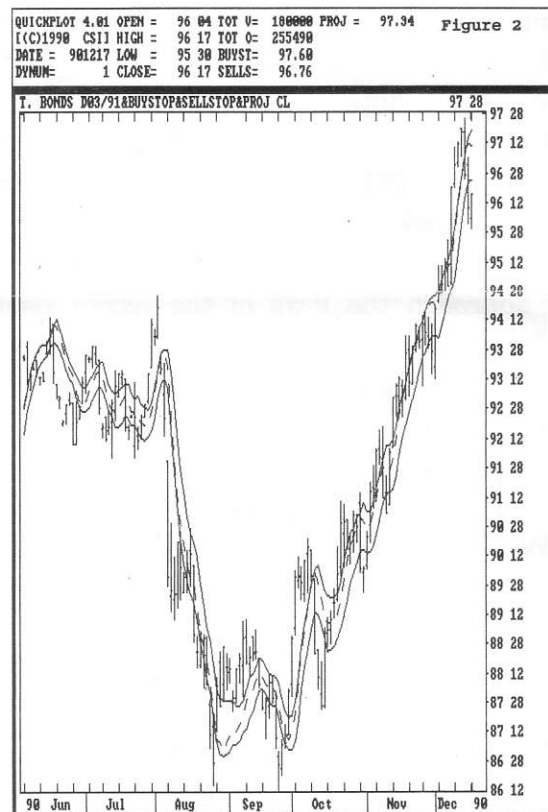
Figure 2 is an example of the same T-Bond

contract with the results of the CSI-Stop study interposed over the time series chart. You can see how profits would have accrued using this methodology based on the premise that long positions should be held when current prices exceed the projected highs and short positions should be held when current prices fall below the projected lows. CSI-Stop uses a differential mathematical filter to predict future market levels based on past market actions. The only input for CSI-Stop is a parameter we labeled the stop fit factor. This determines how close the stop values are placed to the market's action. This factor can be easily adjusted to one's trading style.

CSI-Trend is designed to assess whether past price activity is characterized as random or trending. This is a statistical study that uses a variation of the Chi-Squared technique to measure market randomness. This study is definitely not a prediction tool but tells you how to best work the existing market. CSI-Trend is displayed as an index. The scale (0-100) can be thought of as the percentage chance that the market has been random. High readings represent a random market while low readings represent a trending market. A trending market provides an excellent opportunity to let your profits grow and with the confidence of CSI-Trend you may loosen your stops and participate in the gains. A random market is generally a good place to buy when prices approach the lows of the recent past and sell when prices approach the recent highs. A random market is usually traded with closer stops to protect your profits and capital.

The three studies PDI, CSI-Stop and CSI-Trend, used together to supplement your other indicators, may significantly aid in fostering successful trading.

Japanese candlestick charts have been included in our QuickStudy software for those who want to use this interesting technique to view their time series histories. Figure 3 shows an example of a candlestick time series chart. The darkened

"candles" exhibit daily downward movement, whereas the empty candles portray the opposite.

Figure 3

EXERCISING SPE WITH CSI-TREND CAPTURE™

To develop a profit and loss string for exercising the SPE, we drew from our archives an early CSI trading program that was successfully used by ourselves along with many of our customers. Without the benefit of seeing the decade of 1980, this program was run on 10 years of Deutsche Mark and Japanese Yen data and about 8 years of EuroDollar data. Each commodity uses a single parameter to control the trading. This parameter was set into the program for each market 10 to 12 years ago, prior to 1981, based on information developed before that time and it has not been touched since.

Results of using the prior version of what we have now designated "CSI-Trend Capture" on these three markets was a net profit of approximately $75,000 which accounts for a commission of $25 and slippage of $50 per trade.

Figure 4 is one of the three outputs or results

that are displayed from the SPE program. This figure shows the probability of successfully achieving your profit or reward goal with varying amounts of capital stake. For example, shown is an arbitrary goal of $3000 and the increasing probability of achieving this goal with an increasing capital stake. In this figure you can see that using the trading system from which the profit/loss string was derived, a capital stake of $12,000 would yield a probability of achieving the profit goal of approximately 87%. The other two outputs from the SPE display are 1) skill level of your trading system versus required capital stake and 2) skill level versus a range of capital stakes.

The SPE provides the user with the minimum average capital necessary to break even. If you do not have sufficient capital to meet the breakeven requirements then you are destined to fail. On the other hand you may expand your capital stake and have, on the average, an increasing chance of coming out ahead. It is left up to the user to measure whether the return on investment is sufficient to play the game. SPE's manual gives the user some guidelines for answering this question.

Can your Financial Representative's extensive track record be repeated by chance? SPE can give you a clear unbiased answer to this question. SPE can evaluate an actual record as easily as it can evaluate a simulated record and the results are statistically valid provided the input is accurate. If your Financial Representative has such a track record, ask him to provide it to you in writing and run it through SPE before you begin trading. You can verify the capital stake necessary and determine your chances to achieve any given goal. If his approach is then determined to have merit you can then trade with uninhibited purpose.

An updated version of CSI-Trend Capture that will operate on today's markets is in preparation and will be offered to our customers. This new software will include a graphics interface,
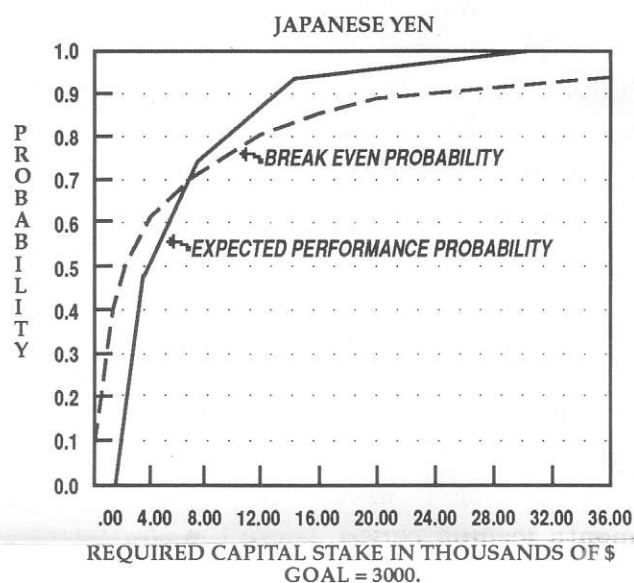

REQUIRED CAPITAL STAKE IN THOUSANDS OF $
GOAL = 3000.

Figure 4

optimization potential and a capability to follow and trade several markets simultaneously. We are introducing some minor modifications which will increase the profitability without appreciably changing the overall design, and of course we will keep the parameter count under control.

SPREAD CORNER

In moving forward with our work on Unfair Advantage, we have compiled a large perpetual data base of over 30 candidate commodities for stand-alone market analysis and intermarket pairing that will accommodate intermarket straddles. In looking at a subset of these commodities we did a simple linear correlation of all pairs involving the meats and grains.

Results shown on the following page in Table 1 support what we have designed into the spread logic of Unfair Advantage. We will have more on this in coming months.

Table 1 quantifies the likelihood that a given pair of markets will move together. Some are better than others, but every market shown has a positive relationship with the other markets.

Pork bellies has the lowest overall correlation

coefficient relative to the other products, but this can be explained. Pork bellies futures have a six month interval from August to February where no contracts are offered. This influences the three month forward perpetual calculation that was used to generate the table. In addition, and probably much more important, pork bellies is a finished product with respect to the raw material, live hogs. Live hogs is a finished product of feed grains such as corn. There is a lagged relationship between levels of finished products and their associated raw materials. The corn that is fed to the hog is used over the approximate four month feeding period before the sow farrows and the six month feeding period for the piglet to become a marketable 220 pound hog ready for the market. In addition there is also an interval of time for impregnation of the sow and a period at the end of the cycle that could be attributed to marketing the slaughtered product.

The point illustrated here is that, not only is there a direct relationship between these commodities, but it is time phased reflecting the stage of the commodities life cycle. Therefore, any reasonable analysis that compares raw products with finished products must take into account the lagged relationships which would, of course, modify the computed levels of correlation.

The lead/lag relationships when appropriately applied should boost the correlation coefficient. When the coefficient is maximized, the given lead/lag relationship should be the most appropriate for the pair selected. To do this would require an analysis of, say, a three month forward perpetual corn contract with a nine month forward perpetual live hog contract because today's corn is fed to tomorrow's hog.

Mathematical correlation is interesting, but when analyzing these markets it is easier to make a judgement about trading when some simple elements involving the overall process are known. When Unfair Advantage is released, you will have a tool that will accommodate just this sort of

problem. We are looking forward to the day when all of these concepts can be easily implemented into a viable trading plan.

Best wishes for prosperous trading,

Bob Pelletier

Table 1

		Grains and Meats Correlation Coefficients 1987 thru 1989							
		Logarithms of Daily Closing Prices - Perpetual Contract							
	L.Cat	F.Cat	PorkB	Hogs	Soy O	Soy M	Soy B	Oats	Wheat
Corn	.757	.833	.617	.797	.922	.838	.912	.909	.938
Wheat	.829	.813	.829	.833	.881	.880	.905	.918	
Oats	.855	.833	.638	.845	.875	.893	.922		
Soy B	.835	.800	.615	.835	.936	.971			
Soy M	.852	.735	.595	.824	.832				
Soy O	.762	.801	.582	.781					
Hogs	.863	.765	.874						
PorkB	.584	.687							
F.Cat	.701								

ASK CUSTOMER SERVICE

Each month in this column, the CSI Customer Service staff addresses a subject of interest to many users. Dave, Karen, Rudi, Susan and Tami will discuss the different types of portfolios available from the CSI by answering some common questions.

Q. What are my choices when setting up a portfolio of commodity data?

A. We can arrange either a **specific portfolio** or a **generic portfolio**. When a **specific portfolio** is used, you control the content through QuickTrieve. When a **generic portfolio** is used, our host computer automatically makes changes based on the renewable list of contracts you submit. The generic case requires less interface by the customer and is easier to manage.

Q. What's involved in setting up a generic portfolio?

A. To set up a **generic portfolio**, you must provide certain information in advance. First list the commodities desired. Then tell us which delivery months you will want to receive over time. Include the number of nearby contracts you'll want to receive each day. Finally, identify the relative roll-forward date for new contracts of each commodity.

Q. When a generic portfolio is used, what are my choices for "roll forward" date?

A. Our system can roll contracts on the last

trading day or any day during the last two trading months. You must specify an actual date such as the tenth, thirteenth, etc. We can't accept requests for first notice day, x days before expiration, or the like.

Q. *How can I change a generic portfolio?*

A. QuickTrieve can't change a generic portfolio the way it can change a specific portfolio. The service staff has to make any changes directly on our host computer. You'll need to call Customer Service to get help on this.

Q. *What are the advantages of a generic portfolio?*

A. A generic portfolio is ideal for the trader who always tracks the same rotating list of contracts. When no changes are made, the portfolio will deliver a current forward set of contracts of the same size indefinitely.

Q. *What are the advantages of a specific portfolio?*

A. QuickTrieve can change a specific portfolio through the Order/Customer subsystem. With a specific portfolio, you always have complete control over what you are receiving. You can type your changes at your leisure and send them to our host computer via network phone lines, and you never have to wait for an available service representative to help you with your changes.

Q. *Will data retrieved from a specific portfolio be different from data retrieved from a generic portfolio?*

A. No. QuickTrieve stores data the same way, regardless of the type of portfolio used.

Q. *Will a generic or specific portfolio allow me to receive both commodities and stocks?*

A. Stocks can be included in daily updates drawn from either a generic or a specific portfolio. Our host computer keeps stocks in a separate, independent listing. The computer merges these commodity and stock lists for daily transmissions.

GOODBYE TELEX!

Since we installed our FAX machine last year, the number of Telexes we receive has dwindled to virtually zero. In keeping with the changing needs of our customers, we have canceled our TELEX subscription and no longer accept messages in this manner. Please feel free to contact us by FAX (407) 392-1379, phone (407) 392-8663 or by QuickTrieve's message subsystem.

BILLING NOTE:

Those customers who have paid for version 4.01 QuickPlot and the System Performance Evaluator will note that this month's invoice shows a charge for these items. These packages have not yet been shipped, but they will be going out over the next two weeks.

The manual for QuickPlot/QuickStudy is due from the printer on January 2, so the estimated shipment date for these packages falls in the first and second weeks of January. The System Performance Evaluator should also be ready around that time, if not before.

Although we normally wait until we ship a package to debit a user's account, this procedure was necessary to keep our 1990 accounting records straight. If you call about your order please let us know that you are making an inquiry about a previous order. This will help us to avoid charging your account for a second copy.

NEW 2400 BAUD ACCESS LINE

In response to customer requests, we have converted one of our 300 baud access lines to 2400 baud for callers dialing by **long distance**. The phone number for 2400 baud retrieval is **(407) 392-0572**.

We will be converting more lines to 2400 baud as necessary to meet the needs of our customers. Since this is the only long distance line with 2400 baud service, it can't roll over to other lines when in use. Consequently, you may find more frequent busy signals when using this number. The busy signals will diminish as more 2400 baud lines are added.

ATTENTION COMPUNET USERS:

As of the end of February 1991, we will discontinue access through the Compunet network. This change will help us keep costs under control while still providing ample means of redundant toll-free access through Tymnet and Telenet.

Watch the February News Journal for a reminder and for specific instructions on changing phone networks.

QUICKSTUDY DEMO DISK AVAILABLE

We have developed a demo disk for QuickPlot/QuickStudy version 4.01. This program demonstrates QuickStudy's multi-windowing