

CSI NEWS JOURNAL

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Volume VII, Number 5

May 1991

\$10.00

CSI Now Offers A Complete Back-Office Accounting System

This Will Give the Individual Trader the Same Advantage as the Professional Money/Portfolio Manager

Early last summer we surveyed our readers to determine what new products were most needed by our trading customers. The number one response was an accounting program that would record and track positions, calculate account equity and compile reports.

From our experience, this is something every trader needs to manage his money, but such a program is hard to come by. We are fortunate to announce the availability of TraDesk to our customers for this purpose. TraDesk is the most complete back-office accounting system we have seen. It was developed by Steve Briese, of The Bullish Review, over a three-and-a-half-year period. It works with your CSI daily data feed to compute your open equity, and it exports Profit and Loss results to the Trading System Performance Evaluator.TM

Over 100 traders actively use TraDesk now. They range from single portfolio individuals to large, active multi-account trading advisors and brokerage firms. This software has been thoroughly validated, tested and documented. TraDesk was reviewed by Jeffrey S. Laudin in the January, 1991 Technical Analysis of Stocks and Commodities. He describes TraDesk

as refined and elegant. TraDesk also earned "Product of the Year" honors in the "1990 Super Traders Almanac".

A sampling of TraDesk capabilities:

Accounting - Maintains open and closed trading records for an unlimited number of trading accounts including the calculation of equity, margin commitments, open risk, and tax return information.

Specifications - Identifies all traded commodities, options, stocks and funds with symbol, share or contract size, hours traded, daily limit, delivery months, margin, commission and fees as appropriate.

Journal - Provides a full-screen calendar for trader diaries as well as a separate commodity alert calendar. A note pad permits a narrative description of every trade.

Graphs - Charts display performance including open profit, closed profit, total equity, etc.

Reports - Comprehensive menus can combine account trading with related journals, calendars & open orders.

Anyone wishing to take full advantage of this software can also use it to place stock or commodity orders with a broker. It has many other features and benefits.

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We do not know of a more comprehensive and flexible stock / commodity investment portfolio accounting program, and no other product does a better job with futures than TraDesk.

TraDesk is currently delivered with a detailed printable manual in magnetic media form for those who wish to begin use today. Qualified users will be supplied with an elegant full-scale manual for your reference library. The manual contains the same information as the magnetic media copy, and will be made available in 60 days after we obtain an early measure of customer demand.

TraDesk prices begin at \$22.00 per month for a month-by-month individual lease. We're offering a special introductory price of \$299.00 for purchase. (The regular price of TraDesk will be \$449.) Other pricing options exist for larger CTAs and brokerage firms.

Call CSI Marketing at (800) 327-0175 for information on pricing arrangements. □

CSI Seasonal Charts vs. Chicago Mercantile Exchange Seasonal Charts

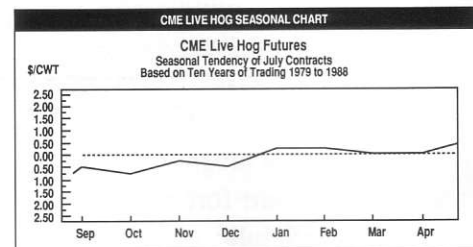
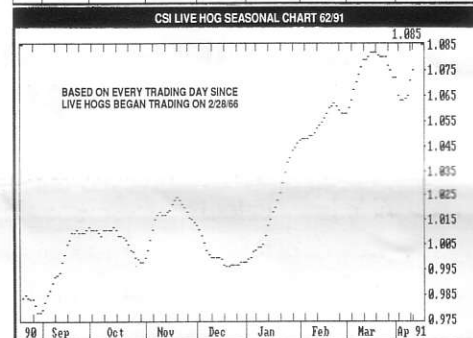
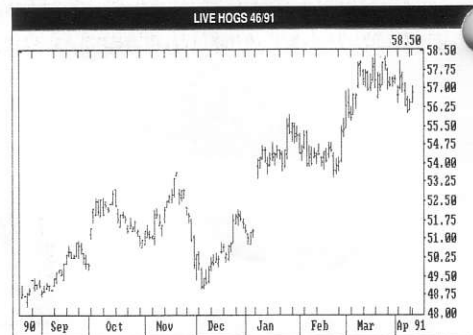
We wanted to give our readers an idea of the value of CSI's new Seasonal Index Data, so we've provided some comparative charts. These show CSI's Seasonal Index Data, Chicago Mercantile Seasonals and the actual market behavior for CME live hogs. Which would you prefer? Which has predictive value? Which could be used on a daily basis to forecast future price?

Certainly, CSI data for the Live Hog market comes from the Chicago Mercantile Exchange. But because we manipulate the data with numerous filters and transformations, we derived substantial additional detail from it. You can get free seasonal charts from the Chicago Mercantile Exchange in printed form; if you want CSI's seasonal charts, you pay a small fee.

The enclosed flyer adjusts our offer from last month when you could pur-

chase any number of years for the price of two years. Now, the customer must pay for the first two years of the same commodity at our regular price and additional years are priced at \$1.00 per year. We recommend purchasing these indexes for the markets you follow and adding our #62 seasonal index contract to your daily portfolio. We believe the seasonal data gives the user a substantial advantage over those who do not have this information.

There are services available which base their entire livelihood on seasonal data similar to the Chicago Mercantile Exchange version shown here. CSI's contribution is just one of many ways the user may understand the markets, but CSI's contribution is done on a daily basis with extensive historical reserves unmatched by any other service.



Please do not trade without this tool. We want you to be around month after month as a successful user of our service. □

Coping With The Trading Game

□ Approaches and Ideas

Those who would advise you on how to trade suggest the nature of the games you should attempt: **1)** Play games where your advantage exceeds your opponents, **2)** Play a 50:50 game if you get paid a fee for each trial, or **3)** Play a 50:50 game if you know that your opponent has only a fraction of the capital you possess. Of course, in each case, not unlike the gambling

casino, the odds heavily favor a successful outcome, but these games may be hard to find. Certainly the latter two have an advantage, but these usually represent trading-infrastructure personnel such as a broker or a heavily funded hedger like the Hunt brothers. All of us try to emulate the trader who plays only when he has an advantage. CSI's monthly newsletter has been counseling this group.

Traders paying fees and commissions are sometimes victims of dishonest collusion, and are subject to bid/ask slippage. A game for a trader is a serious challenge where the odds are very much against winning on an individual trade basis. (*See Who Wins - Who Loses - CSI January 1991 News Journal*). In spite of this, many traders succeed. Some customers have been with CSI continuously for

fifteen years and I believe this is good evidence that our customer base is one of the more successful groups.

If on-line quotation services would make public their customer longevity records, you would likely find that those services which foster day-trading methods have the highest turnover rates and the highest level of service contract defaults. At the risk of sounding self-serving, the real-time advocates are a good example of a group that pays much more to get much less. It doesn't take an on-line quotation machine to make you a winner. The truth is much to the contrary.

Ed Seykota, considered to be "one of the best traders of our time," was interviewed in *Market Wizards* by Jack Schwager. The article says Seykota has no need for a quote machine on his desk. "His trading is largely confined to the few minutes it takes to run his computer program which generates signals for the next day." Quote machines contribute to heavy overhead expense that is difficult to earn back. The successful trader in our biased opinion need not look much further than CSI.

We recently provided Seykota with a data base on silver. He had just evaluated data provided by two west coast firms which he found "saturated" with errors. For example, for some non-holidays when for other reasons no trading occurred, he found invented data from these competitive sources. We assured him this would not be the case with CSI information.

Large Sample Size

These thoughts lead into a key requirement for the trade selection side

of successful money management. Unlike expensive on-line quotation services, CSI customers have access to decades of in-depth and extensive data. Perpetual Contracts[®] are often used by CSI customers to feed algorithms that synthesize and simulate the markets. An extensive data base permits extensive historical testing and therefore satisfies the large sample size requirement that is essential in the search for a winning game.

Relative Price Opportunities

The age-old rule - buy low and sell high - is at least half true some of the time. There are times when technical indicators do not provide assistance in trade selection; here is a story I enjoy telling. I became interested in the commodity market just before the Bay of Pigs invasion in Cuba on April 14, 1961. I had a friend who made millions on a series of many World Sugar trades that built substantial equity by adding heavily to a sugar position originally taken at 1.5 cents per pound. He carried his position through a level of 13.5 cents per pound in a matter of weeks or days. His sole motivation to take his original position was that prices were simply too low.

Anticipating a price which a given commodity cannot exceed is another story. A price level near zero has a very finite risk, but the potential upside risk, on the other hand, could translate into a sizable loss.

□ Psychological Perceptions

Some psychological implications should be followed that will help avoid self defeat. I would like to classify these ideas under trader attitude and

give my opinions on certain perceptions that, without a positive outlook, could adversely influence you.

When you trade, don't ask your broker what he thinks and don't broadcast your progress to others, good or bad. Your broker will render an opinion when asked even when he doesn't have one. His opinion will likely be wrong because he has an unconscious interest in your taking an early profit or a small loss. He has a perceived interest in preserving your capital. If you tell others of your successes you will be inhibited by what your communicant might think and this can adversely influence your objectivity and in turn the ultimate outcome of your trade. Similar advice, perhaps for opposite reasons, applies to unrealized losing positions.

Know in advance what your trading plan and strategy will involve, and formulate as many conditional questions as possible about your trading before you book your first order. Be sure you understand and meet what your capital requirements should be by compiling an exact accounting of every trade executed. Keep a notebook of all the events that lead to each result. Dispel the usual paranoia that convinces you that the world is against you. Adopt a positive outlook where you will accept a given trade's outcome, good or bad, as a step toward your ultimate goal. And finally, don't ever turn your back on a market in which you are involved.

□ Money Management

How would you define money management? It is often said that making money in futures is less technique and

trade selection than money management. When told this I usually ask, "What is this thing called money management?" I've never received the same answer twice and have made little sense out of the answers given.

Books on futures markets and stock market theory always seem to provide a chapter or two devoted to this subject, but I still scratch my head afterwards wondering what the author really had in mind. I really don't think there are many who can define and describe it, but at the risk of adding to the list, we offer this contribution.

Accelerating Downstream Profits Without Increasing Risk

The newcomer to the market usually thinks in terms of one-lot trading and not much thought is given to how lot size or the assumption of additional risk is expanded as capital increases. In "Portfolio Management Formulas", a book by Ralph Vince, the important topic of how one should manage market risk is covered in depth. Mr. Vince assumes fixed fractional contract quantity adjustments to risk and he does not take into account the distributional form of the user's P&L experience. A great deal can be learned from Mr. Vince's approach (and I believe he has made a significant contribution), but the exact distributional form of profits and losses could lead to a more realistic statement of capital resource requirements. Mr. Vince develops a fixed fractional value he calls "Optimal f" which helps to set

the capital requirements for each trading unit. But because of the assumptions inherent in his approach, the problem cannot easily be reduced to a probability measure which is capable of controlling capital and risk on an integral trade quantity basis.

Fortunately, there is another way. CSI's new product, "The Trading System Performance Evaluator" accepts the profit and loss distribution for your actual or simulated trading procedure. TSPE is capable of identifying the capital stake required to meet a prespecified probability of achieving a given goal. Using similar statistical analysis, this type of research can be moved a step further to identify points in time after capital growth (or lack of it) has changed significantly to warrant an increase or decrease in market risk. This point in time would be when the contract count is changed to N+1 or N-1 from N such that a given goal is reached in the fastest possible time with the fewest number of trades. Moving forward this additional step should enable the trader to achieve whatever confidence he requires that his account will remain solvent and liquid.

Some Inherent Advantages That Can Benefit Any Trader

There are a few advantages that the seasoned trader has over the inexperienced novice. We may already have covered some of them, but at the risk of repetition a full list is shown here:

- 1) Avoid unnecessary expense such as quote machines and expensive unfounded tools that greatly increase overhead and subtract from profits.
- 2) Avoid overbought, oversold tools

that buy and sell against the trend. Such trend resistance techniques unnecessarily cut profits short and let losses run.

3) Avoid the public domain tool kits, especially those which restrict data base longevity and sample size. A friend of mine, a self made millionaire in real estate, died a pauper because he believed the signals he received through the technical analysis system membership he acquired for use with his Apple. He thought the tool kit he had purchased in the late '70s would make him even richer.

4) Shop around for a broker who can offer both favorable commission treatment and sound financial backing. Low trading costs are important, but you will also want to protect the integrity of your account equity.

5) Prove to yourself on paper that the approach you plan to use has a positive mathematical expectation and trade conservatively to reach your goal.

6) In a given trade, if you happen to lose less or take more of a profit because of a mistake, do not unconsciously assign credit for the favorable outcome. Be realistic in post trade evaluation so that you can learn from each and every experience. It is important to be as honest with yourself as you are with others if you really wish to move forward and make a success out of your trading. □

Best Wishes for Prosperous Trading,

Bob Pelletier

Ask Customer Service

Each month in this column, the CSI Customer Service staff normally addresses a topic of interest to many users. In this issue, we've decided to let our bookkeeping department field some billing questions. Chris, Mercedes and Nitza have presented common questions about our monthly statements in a question-and-answer format below.

Q. *What do you mean by **PRIORITY** at the bottom of my statement?*

A. Call priority refers to the time that you call for data.

There are seven priority levels from A (the earliest) to G (the latest). If your call priority is A, B, C or D, then your rate reflects an early-access surcharge as shown on the price schedule. Priority E means you generally called during the normal access time, so our standard rate applies. If your call priority is F or G, your rate includes a 10% discount for evening access. See the back of your invoice for a table of call priority times.

Q. *I call at different times on different days. How is my priority level assessed?*

A. Your calling priority is determined by your fourth earliest call during the billing period. If you make three calls at priority D and the

rest at priority G, we'll bill you for priority G. If you make a fourth call at priority D, your rate for the entire month will be billed at the higher priority-D level. This arrangement allows you to make a few earlier accesses without penalty.

Q. *What does "Change from 1 to 2 average calls" mean?*

A. It means that last month you increased your number of data accesses to the point that you are double-accessing your account. Since we did not pre-bill you for the extra updates, this adjustment corrects the undercharge on your last bill. We allow each user 30 daily updates during a billing period. Since there are usually only 21 trading days during the month, this leaves you with about 9 extra updates. Any time you collect more than 30 updates, your bill is increased by a 70% double-access surcharge. It only takes one call over 30 to affect your bill, so be careful not to make too many calls.

Q. *I call once a day for data but my bill shows the **AVERAGE NUMBER OF CALLS** is 3. I collect a full week every day to correct any errors from the previous week, but never more than once daily. Does collecting a week of data affect my bill differently from collecting a day of data?*

A. It sure does! When you collect a week of data, you are picking up five updates from the data base, not one. Doing this every day for just one week consumes 25 of your 30 allotted updates. This practice can quickly get you into double-, triple- and even quadruple-access surcharges. If you are calling for data on a daily basis, there is no need to duplicate previous updates with QuickTrieve's weekly-access feature. You can assure that your data base is accurate by collecting our correction file. The correction file handles error correction more efficiently than your multiple-access technique because it can correct errors that are more than a week old and gives you a listing of the corrections made to your data base.

Another advantage: Its use does not inflate your bill. You may call for a week of data any time multiple days are needed, but be sure to count each week as five accesses when tallying the number of calls you have made to CSI. If you get more than 30 updates, expect to pay 70% more on your next bill.

Q. *Whom should I contact if I have a question about my bill?*

A. First check your statement. A brief outline of the factors that affect your bill can be found on the back of every invoice. If you still have questions, contact any of us in the bookkeeping department. We're here from 9 a.m. to 5 p.m. (Eastern time) Monday through Friday.