In This Issue

Editor: Sabrina Carle
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# Chaos As A Money Management Tool *(Part I)*

The great sculptor Michelangelo said his art was in carving away everything that was not his subject, literally freeing his figures from the stone. Like Michelangelo, we market technicians ply our electronic chisels (*our computers*) attempting to expose everything of substance. Instead of life-like figures, we hope to uncover trends, cycles, seasonals and such. I think this practice is useful for trade timing, but I also believe there is valuable information in the residual price data that is cast aside. Yes, search for trends, cycles and seasonal tendencies, but then cut them away. All that will remain is the underlying chaos. Although it may not be pretty, this chaos (*residual price data*) can point the way to improved trading results.

A discussion of both the concept and practice of exposing chaos is too great a subject for just one article, so I will divide the topic between two issues of the News Journal. This month I will discuss what chaos can tell us and how these lessons can be applied to trading. Next month's issue will delve into how the technician, like the sculptor, can carve away everything except the subject at hand.

When studying a market, the analyst can expose certain components in price data that are primarily useful in market timing. Every time series contains four elements which are loosely defined as trend, cycle, seasonal tendencies and irregular

figure 1.
Irregulars: Live hogs after component removal
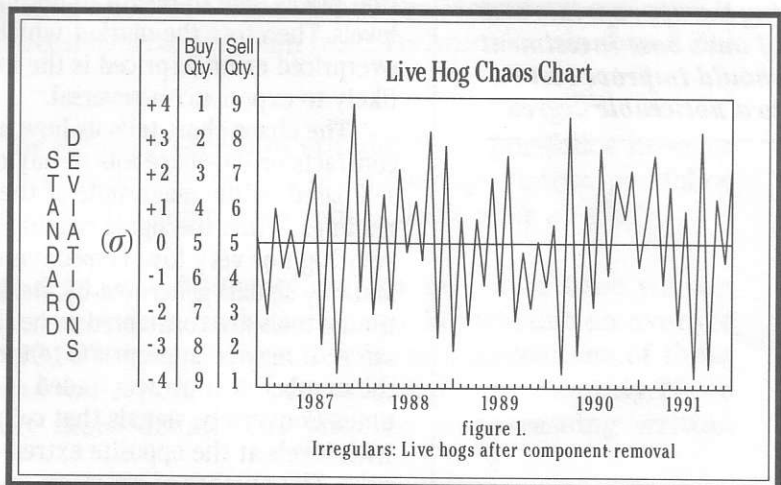
patterns. It is my position that we should methodically isolate each of the first three components and remove them from the data. Our objective is to chisel away all components except the irregular patterns, which represent chaos. The chaos component can identify market posture and help determine the appropriate investment size.

Figure 1 above shows chaos (*in units of the residual price standard deviations*) that has been freed from the mass of other market forces that concealed it. The software that will perform this analysis is still under development, so the chart presented

Chaos As A Money Management Tool

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Bob Pelletier

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here is hypothetical. It is, however, a reasonable facsimile of what can be expected. As you can see, we have reduced the flattened-out irregulars into a chaos diagram measured in standard deviations over time. Michelangelo might not be impressed with the results, but investors will surely appreciate our art.

The chaos levels, shown as sigma readings (σ), reflect the degree to which prices fluctuate from their historical norm (0σ). Positive sigma readings imply an overpriced product and negative readings imply an underpriced product. Economics tells us that prices tend to return to normal levels. Therefore the market which is overpriced or underpriced is the most likely to experience a reversal.

The chaos chart tells us how many contracts or 100-share lots to buy or sell based on the magnitude of the readings. When the sigma readings are very high or very low, respective sell and buy signals generated by market timing tools are considered to be the safest. It may be appropriate to increase the number of contracts traded at these times. Conversely, signals that coincide with levels at the opposite extreme are risky. The number of contracts traded at these times should be minimal.

This market-oriented technique for determining the appropriate size of one's base investment should improve results to a noticeable degree. This is because it uses natural market forces to amplify profits. The level of market exposure suggested is inversely proportional to historical levels of inherent risk.

I am currently working on the Unfair Advantage software, which had been set aside while other projects were undertaken. It will include this type of trade exposure selection. I find that the more I work on the project, the more I learn about natural forces affecting the markets and about using

the computer to uncover them. Next month I will discuss the specific "sculpting" techniques to be used and offer insights into why they are appropriate for market analysis.

Bob Pelletier

CSI Users Reap Benefits of Hardware Enhancements

Our technical staff has been working on many system upgrades over the last several months which have substantially improved the quality and reliability of the data retrieval service. Where we originally had two mini computers serving you, we now have seven. These additional systems provide a wealth of redundancy for enhanced reliability and will allow us to handle double or triple the previous traffic.

Modem speeds have been pushed up for Tymnet, Telenet and long distance access, allowing for more simultaneous high-speed transmissions. The number of lines for each alternative has been more than doubled.

In the past, QuickTrieve users have had to wait from several seconds to a few minutes for file creation before data could be delivered. Thanks to a new procedure, these delays should diminish for all users. We will now automatically create all files during each of two or three postings each evening. File creation may be slower if you happen to call during one of these brief posting periods, but we are finding ways to speed this process. If you routinely have to wait more than one minute for file creation, call our Customer Service Department. They may code your

QuickTrieve Now Includes
Data Integrity Checker & Other Upgrades

Data Integrity Checker

We have included a program that checks CSI-format data for inconsistencies, helping to assure the integrity of your data base. Forgotten stock splits, data spikes, open or closing prices outside the high or low range, missing days, etc. will all be noted and brought to your attention. This program will scan any historical file or all historical files in search of data anomalies. The QuickTrieve version number which includes this new feature is 4.03.

Monday Holiday Correction

QuickTrieve users who access weekly updates may have noticed a problem with retrieving any full week that begins with a Monday holiday. This was corrected in version 4.02. Users of QuickTrieve versions prior to 4.02 who collect weekly updates are urged to upgrade to version 4.03 or avoid weekly collections of any week beginning with a Monday holiday. The next Monday holiday will be President's Day on February 17th.

Alerts Calendar

QuickTrieve versions 4.02 and 4.03, and TraDe$k support annual updates of the Commodity Alerts Calendar reprinted by permission from Futures Magazine. This on-line presentation of important dates is a risk saver and a real time saver for any active commodity or stock trader. It includes daily notices of reports from the U.S.D.A., Departments of Commerce and Labor, Federal Reserve Board, Census Bureau, etc. for the entire year. It also lists notice days, delivery days and cash settlement days for all major futures contracts, and holidays for major exchanges. 1992 alerts information is included in all QuickTrieve 4.03 and TraDe$k software shipped after January 1, 1992.

Outstanding value

The substance of QuickTrieve version 4.03 costs a minimum of $279

from a competitor, who charges $150 for a data checker, $79 for annual updates of the Commodity Alerts Calendar and $50 for their downloader. For only $20, current CSI users can receive all three of these capabilities plus an editor and the ability to convert to and from CompuTrac/ Metastock format and to ASCII files. These features are all included in the basic $39 software package for new users. Orders for QuickTrieve version 4.03 may be placed by phone or with the appropriate order form in this News Journal. New subscribers please see the Product Summary for a full price schedule. Current users of TraDe$k and QuickTrieve 4.0 - 4.02 may order the upgrade with the form below. Those 4.02 purchasers who prepaid for their 1992 Alerts update will receive version 4.03 at no extra charge.

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      Upgrade Order Form
  (New users please see Product Summary)

  ☐  4.03 QuickTrieve for users of QT 4.0
  to 4.02 (includes Data Integrity Checker
  and all the latest QT enhancements) $20
  (If you have already paid for the 1992 Alerts
  Calendar, please do not order it again.)

  ☐  1992 Alerts Calendar for TraDe$k $49
  (incudes latest TraDe$k enhancements)

  Amount enclosed: _____
           (prepayment required)
  Name _____
  User I.D. _____
  Address _____
  _____
  MC / VISA / AMEX # _____
  Exp. _____
  Signature _____
  My QuickTrieve
  disk number is_____; version____
  My current TraDe$k version is _____
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In keeping with our policy of offering software upgrades as soon as they are completed, we are pleased to announce several enhancements in our current QuickTrieve software.

Ask Customer Service

As more software programs become available for analysis of the markets, data compatibility becomes important to our users. QuickTrieve's data distribution routines and QuickManager's Convert-File-Types feature make CSI data compatible with almost all major analysis products. Here are some common questions received by Customer Service about various data formats.

Q. *Which file formats does Quick-Trieve/QuickManager support?*

A. QuickTrieve can automatically create files and distribute historical data to CSI, CompuTrac and ASCII formats. Daily updates can be distributed automatically to CSI and CompuTrac formats. Updates of ASCII data involve distribution to CSI format, then conversion through QuickManager to append existing ASCII files. Since Metastock uses a specialized CompuTrac format, QuickTrieve is also compatible with Metastock.

Q. *Can I convert CSI data to CompuTrac format after distribution?*

A. Certainly. Use the Convert File Types selection (K on the QuickManager menu). Selection B CompuTrac/Metastock Conversions lets you convert either to or from CompuTrac format.

You'll have the option of converting all files or just selected files, and may select the starting path for distribution. Recent versions of QuickTrieve will automatically create new files and subdirectories as needed.

Q. *Can QuickTrieve sort new files into the commodity groups I use in CompuTrac?*

A. Yes. When files are converted one at a time, you may select the CompuTrac data subdirectory to be used for each contract.

Q. *I notice that QuickTrieve can convert from CompuTrac to Quick-Trieve format. Since I already get my data from CSI, can this utility offer me any benefit?*

A. It is included to give you an extra backup system. CSI subscribers who keep data in both formats always have a ready-to-convert backup in case of accidental file loss or damage. Obviously, this won't help you if you have a total drive failure. This is also handy for analyzing CompuTrac generated data with QuickPlot.

Q. *I'm interested in spread sheet analysis of stocks, so I distributed my CSI data directly to ASCII files. Unfortunately, the program I use can't read the date in a YYMMDD (year, month, day) format as QuickTrieve presents it. Is there another date option?*

A. Yes. You can pick the date format along with the record layout of your choice through custom definition of ASCII files. You'll need to distribute your data to CSI format first, then let QuickManager convert to ASCII through the Convert File Types menu. You will have several options regarding data presentation, including whether you want standard format or custom definition.

From the custom definition menu you may select the exact record layout for your ASCII file. For the date record you may select the position of the individual fields of year, month and day. Your choice of constants may be placed between the fields as desired. For example: MM/DD/YY, MM-DD-YY, DDMMYY, DD/MM, etc...

Although the date field is the only field you can manipulate internally, you may modify the file structure further by deciding which fields will be included and where they will be located.

Q. *Will I have to go through the definition process every time I convert to a custom ASCII file?*

A. Not if you use the same record layout again. Each custom file definition can be saved and can be selected for use the next time you do a conversion.

New Industry Standard Format Coming

We are working on a new standard data format that will better accommodate the data bases we offer. In addressing the new format, we will consider, among other things, the following points:

1. Calendar dates beyond 1999
2. Expanded precision prices
3. Split opens and closes
4. Settlement prices
5. High, low, and non-trading
6. Expanded precision volume and open interest
7. Dividend and capital gain payments
8. Option pricing
9. Extended precision fractional trading
10. Binary or character representation
11. Basic/Fortran/Pascal/C/etc. language conformance
12. Stock split conventions
13. Conversion factor changes
14. Etc.

We look forward to making these format changes in a way which will be transparent to our customers, but at the same time enhance the flexibility to all users. Please watch for more details, and if you have any suggestions you want addressed, let us know in writing without delay.

Attention Telenet Users: Port Change Required For Access

The recent upgrades made to our computer system have eliminated the need for our single baud-rate Telenet port. We will disconnect Telenet port 305644 some time during the first two weeks of January because it handled only 1200 baud calls. We now offer 300 to 2400 autobauding access on all Telenet ports.

The Telenet port QuickTrieve uses is determined by an entry in the

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CSI Software Product Summary

❑ **QuickTrieve®/QuickManager®** - To retrieve, manage & edit data; includes Alert Calendar $99/Unrestricted use $39/Daily data user

❑ **QuickPlot®/QuickStudy®** - Charting & analysis software (requires QT/QM) $156

❑ **Trading System Performance Evaluator™** - Computes your system's capital requirements $199

❑ **TraDe$k™** - Traders' complete accounting system-(price varies with number of accounts) Starting @ $446/Unrestricted use $299/Daily data user or 12-month lease starting @ $22/Mo.

❑ **Seasonal Index Value Pack** - Three years of history for 33 popular commodities $444

❑ **CSI News Journal** - Aug. 1990 to present $35/Yr. or $5/Reprint

❑ **CSI Mailing List** - $200/1,000 names (CSI users omitted)

❑ CHECK	❑ MASTERCARD	❑ VISA

AMOUNT ENCLOSED $ _____

CARD # _____

EXP. DATE _____

NAME _____

DAY PHONE (____) _____

ADDRESS _____

_____

SIGNATURE _____

❑ 5¼" DISK   ❑ 3½" DISK

01/92

Prices subject to change without notice.