In This Issue

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How Important is Money Management Anyway?

The importance of money management in a successful trading system cannot be overemphasized. Ralph Vince, the author of "Portfolio Management Formulas" and other works, conducted an experiment that illustrated this point.

In Mr. Vince's study, 40 traders holding various doctorate degrees were asked to make simulated trades based on a trading system with a 60% random success rate. Each trader made 100 investment transactions with $1,000 in starting capital. The value of each investment could be anywhere from $1 up, with no margin allowances. In this experiment, the gain or loss for each trade was equal to the capital invested. All trials terminated if losses reduced an account balance to zero.

When the experiment was over, only 5% of the traders ended their 100-investment transactions ahead of where they started. In this case, even with a highly positive and favorable mathematical expectation for success, the participants could not prevail at anywhere near the expected level.

What went wrong? The answer, says Vince, is that the participants were not managing their resources according to a prudent plan. I agree with this and with his statement in the January 24, 1992 Club 3000 News which said, "Winning systems can be made into losing systems without proper money management," but "losing systems cannot be turned into winning systems..." [1]

The lesson here is that investors should concentrate as much on money management as on market timing.

Unless both disciplines are practiced together, you may be throwing your money away.

If you have a timing system with an average profit that is greater than bank interest rates, you have a good chance of coming out ahead. That is, provided good money management is practiced. Add Treasury Bill earnings to your account's running equity and your chances will improve even more. However, if your timing system has proven itself only in simulated trading, the apparent success rate may be greatly exaggerated. Such a system might produce much lower profits than expected, and may lead to catastrophic consequences. Inadequate hindsight experience and excessive parameter control are two common causes of unrealistic simulated performance projections. The Trader's Money Manager™ (TMM) removes hindsight bias for simulated and actual profit experience to compensate for artificial control and sample size.

The Trader's Money Manager will first evaluate a timing system to remove developer bias. During this process, TMM discovers if the system's performance suggests that it might possess a true mathematical expectation for success. If the timing system passes this test, the program will reveal the required starting capital to trade the system. From there, TMM shows when to increase or decrease the contracts or shares of stock traded as wealth is accumulated. This combination of information helps maximize profits and improve return on investment.

Computer Corner

Is Your Computer Holding You Back?

Do you remember when you got your current computer? Perhaps it was through a mail order house or on sale at a local computer store. Maybe you requisitioned it through your company's supply clerk. However it came to be yours, if it is a recent acquisition, chances are good that you are well satisfied. Recent years have brought many technological advances to the micro computer industry, many of which have filtered down to even low-end systems. If the memory of your computer's first keystroke is as faded as its outdated warranty card, hardware limitations may be restricting you more than you realize.

Many traders who began computer-aided investing in the mid 80s are still using their first computers. This is well and good in the unlikely event the first computer meets current needs. A more likely scenario is that users of older computers are frustrated, but accepting of computer-imposed limitations. Since few of our readers are computer hacks, this article is intended as a primer on what's available now and how to take advantage of it.

First, you must realize that what was state of the art five years ago is, at best, adequate today. What was merely adequate then has likely become obsolete.

For example, in October 1986 CSI was involved in selling clone computer systems. We offered a complete AT package with an NEC V20 processor chip (clockspeed of 4.77 Mhz), 256K RAM, a 360K floppy drive and a 20MB hard drive. It included a composite (monochrome) monitor, a 1200 baud modem and a near-letter-quality printer. The price: $1795

Today we no longer sell computers, so we did some shopping for comparison. Here is what we can get

today for roughly the same price: An 80386-based computer system (25 Mhz clockspeed) with 1 MB RAM, two floppy drives (one 5 1/4, one 3 1/2) and an 89 MB hard drive. This one includes a 14" super VGA monitor, a 2400 baud modem and a letter-quality printer. What a difference!

The 1986 model was a bargain in its day, and using it through the 90s may be your wisest choice if it isn't holding you back. Insufficient disk space, low-quality graphics and too little memory are a few of the woes associated with an older system. To find out if your computer is limiting instead of enabling, ask yourself these questions:

When shopping for software, do you reject programs you like because your computer can't handle them? Are you dissatisfied with the resolution of charts and documents? Do you shuffle floppy disks to conserve hard drive space? Do you spend excessive amounts of time waiting for your computer to process information or for your printer to make charts?

If the answer to even one of these questions is "yes," it's time to consider an upgrade. Before you run out and order anything, review your options. One is to upgrade individual components of your current system. Often a larger hard drive, a better monitor, a faster modem or a new printer can make all the difference. This can be an economical way to revamp your system, but it can't change the basic processor chip or improve clockspeed.

When shopping for these enhancements, keep in mind that they must be designed to work with your current system. Take the details on your current system with you when you shop. Some components, such as a hard drive or monitor, may require a new controller card too. These are usually sold separately. If you aren't completely comfortable working inside

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TMM simulates trading performance and combines the user's capital, goal, trade duration and trade frequency to compute the system's merit. The analytical method will help you keep your winning system from becoming a loser and help you hold on to the profits you have earned. This combination makes the Trader's Money Manager a must-have program for any serious trader.

Here is what TMM will do for you:

1. Analyze the exact distribution of profits and losses for the simulated or actual system you wish to evaluate.

2. Compute your required starting capital stake.

3. Suggest your appropriate market exposure on an increasing or decreasing integral contract basis.

4. Correct for the hindsight developer bias by degrading (reducing) profits and inflating losses according to your system's freedom-restricting parameter count and sample size.

5. Compute your chance of remaining solvent and achieving a pre-specified dollar goal without increasing market risk.

6. Compute your return on investment with and without employing an optimal money management algorithm. This will provide a clear measurement of the advantage in applying money management principles.

The software and very comprehensive manual are complete. We only await the printer and delivery of the manual binders before we can begin shipment. The Trader's Money Manager will be priced at $699, but is offered at an introductory price of $499. We expect to ship the first copies of TMM on or about March 10, 1992. Orders will be filled in the same sequence received. TSPE purchasers should call CSI marketing for special price treatment.

Bob Pelletier

[1] Mr. Vince's quote reprinted with permission, Club 3000 News, *92.02, Jan. 24, 1992. 4550 N. 38th St., Augusta, MI 49012.

TMM Order Form
Special Introductory price $499

☐ Yes, I wish to order the Trader's Money Manager for my IBM compatible computer.

Disk Size (circle one)   5¼"   3½"

Name _____

Address _____

_____

Phone _____

Amount enclosed $ _____

Charge my ☐ MC ☐ VISA ☐ AMEX

_____

Exp. Date _____

Signature _____

03/92

Ask Customer Service

The first calls have been coming in about QuickTrieve® version 4.03 and its new Data Integrity Checker. Here are a few of the questions our service staff has received, along with answers that may be of interest to all.

Q. *I get daily updates directly from CSI and I collect the electronic correction file weekly. I do not doubt the integrity of my data. Is there any reason for me to use the Data Integrity Checker?*

A. Months of comparative analysis leave us with no doubt that we are the most accurate data source in the industry. However, there is a very slight chance that line noise could damage data in transmission in a way that can't be spotted by our checksumming technique. A power spike during data distribution might compromise data in a similar way. Older versions of QuickTrieve made it easier to skip a day accidentally. The Data Integrity Checker finds these and other problems. We feel it is an important enhancement to our software offerings.

Q. *The Data Integrity Checker offers a default of a 5% change in price as the tolerance threshold for commodity data testing. Why 5%? Is this value appropriate for all commodities? If not, how do I determine the correct threshold for each commodity?*

A. We selected a deviation of five percentage points from the previous trading day as the threshold for tagging POSSIBLE ERRORS. Most commodities don't fluctuate more than 5% from one day to the next because of exchange-imposed daily limits. We selected 5% as the default response accordingly. Commodities that regularly fluctuate more or less than this value are certainly candidates for changes.

The simplest way to check your threshold is to run the test. If you get an excessive number of false alarms on errors, you know the number is set too low.

NOTE: The first printing of the 4.03 manual shows a default setting of 3% for the thresholds. We found this value to be too low for most markets, so all software was shipped with default thresholds of 5%.

Q. *How do I determine the right threshold values for stocks?*

A. Use the same guidelines described above for commodities. The principles are the same.

Q. *I use QuickTrieve for data retrieval, but store my data only in the CompuTrac format. Can the Data Integrity Checker evaluate my CompuTrac-format files?*

A. Not directly. Although Quick-Trieve can create, convert and update CompuTrac/MetaStock format files, it can't manipulate them in other ways. You can, however, first convert your data from CompuTrac to QuickTrieve format, and then run the Integrity Checker on the CSI-format data.

If QuickTrieve corrects any files, you'll want to replace your original by converting the revised data file back to CompuTrac format.

Attention CompuTrac Users:

CompuTrac's new SORT MASTER FILE routine should not be used on CompuTrac data files that are to be updated with QuickTrieve. Using this function can wipe out the CSI commodity number for each of your CompuTrac data files.

This problem should be corrected in the next version of the CompuTrac software. Please contact your CompuTrac representative for more information.

This notice pertains to users of CompuTrac version 3.4 only and does not apply to QuickTrieve's SORT MASTER FILE feature.

New Tymnet Customer Service Number:

Tymnet Customer Service has a new number: 800-628-3497. Use this number for information on local access numbers or to check on problems with network connections.

Computer Corner
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your computer, have a professional do the installation.

If overall speed enhancement is important to you, or if you require many upgrades, you will probably do best with a completely new computer system. You will likely be disappointed in the resale value of your used computer. However, this may be one of those times when it's best to take our losses and move on. Consider giving the old computer to a school or other non-profit organization; depending on your circumstances, it may even be tax deductible.

A souped-up computer now includes a 486 processor chip, hard drive storage capacity upwards of 80MB and perhaps 5 MB RAM. A laser printer is a nice touch and 9600 baud modem may come in handy. A system like this would easily cost several thousand dollars. On a less grand approach, perhaps a "notepad" (very small) laptop would meet your needs better. These have been greatly improved recently and now offer very good screen resolution, large storage capacity and manageable battery life.

While talking about economy, 386 systems have dropped rapidly in price and although they are a little further back on the technology curve than the 486, these systems are more than adequate for most users, and will continue to be so for many years.

You probably got a computer to expand your capabilities, improve your productivity and reduce effort. Don't let an outdated system be the limiting factor in this quest.
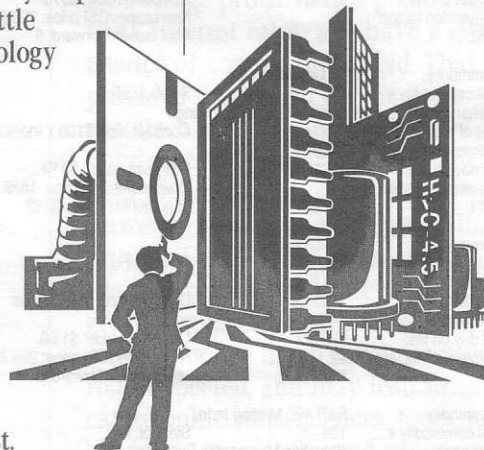
CSI Software Product Summary

☐ **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

☐ **Trader's Money Manager**™ - Introductory price $499 (a $200 savings)

☐ **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)