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More On Managing Drawdown

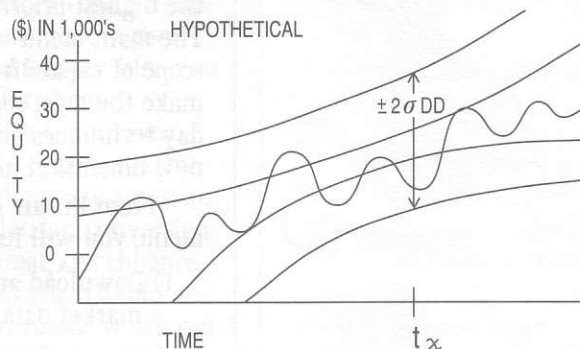
I read with interest Irwin Berger's two-part article on drawdown, etc. in the May and June '92 Futures, in which he demonstrates how to manage market exposure based on contract adjustments to various levels of account drawdown. There seems to be an ongoing debate on the issue of drawdown, and my focus tends to concentrate on the reliability of a system's drawdown estimation and how it should be interpreted. In this case, I don't question Mr. Berger's conclusions about the requirement for decreasing market exposure as losses occur. What I do question is how the public has been taught to perceive drawdown and its rigid quantification.

The word drawdown doesn't appear in the field of statistical analysis, which has long been my primary area of study. What does appear is the concept of uncertainty and expectation. The return or profits for a systematic procedure of trading is the expected profit or loss per unit of time. The uncertainty of the expected profit over time is measured through what has been popularly defined as the variance. What traders and market analysts are referring to when they introduce the ill effects of drawdown is the variance in equity accumulation or some derivative thereof.

When applied to the analysis of trading systems, variance is a statistical measure based on the distribution of profits and losses over time. Only when the profit and loss distribution for a given trading system is known can one begin to assess the maximum level of loss that might develop some predeter-

mined percentage of the time.

I believe the trading public would be well served if they understood that what market analysis call "drawdown" is not an absolute constant. In the absence of a viable simulation tool such as is available with CSI's Trader's Money Manager™, no one can really say for sure what is a



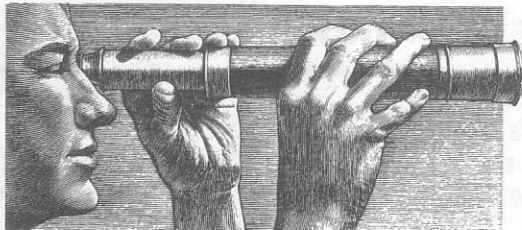
Equity drawdown in statistical terms is a function of the standard error of equity over time. The above chart attempts to illustrate the ± 2 standard deviation range of potential drawdown at some point, t_x , in time.

good cut-off threshold for losses. If system vendors, CTAs and others could put the expected level of loss in more complete statistical terms, perhaps the trader would have a chance to cope. I find it very strange that commodity funds and pool operators can raise money for trading a system without having to disclose a drawdown estimate that will hold up as an impenetrable limit some percentage of the time. It seems to me that they should not only make such an estimate, but also back it up with some form of statistical proof.

A predetermined level of loss accumulation (to say, a drawdown of 50% of original account size) can only be stated to happen a certain percentage of

(continued on Page 5)

Unfair Advantage®



Its Scope and Purpose

The mystery of Unfair Advantage is unfolding more rapidly these days and we are actually producing some light at the end of this proverbial tunnel. It has been some time since we offered an update on this ambitious product so we decided to give a progress report.

Pull-down menus, input/output selection control and ease and friendliness of use have been the highest priorities for this product. The main menu will feature a broad scope of capability. It is intended to make the most sophisticated present-day techniques obsolete and spawn a new dimension in technical analysis.

From Unfair Advantage's main menu, you will have the ability to:

- 1) Download and manage your market data;
- 2) Plan and time your market actions with a depth of analytical methods;
- 3) Manage your market selection and exposure to minimize risk and maximize return on investment;
- 4) And many more intriguing capabilities that will be kept confidential until the product is released.

The Unfair Advantage's studies will take advantage of market movement with a result that exceeds U.S. Government security returns. The level of risk will be insignificant, but known. No attempt is being made to capture the so-called Holy Grail. Statistical diversification will play heavily on the work so that return on investment will be maximized.

As you will see, the scope of this project is very broad. We will plan

phased releases of the Unfair Advantage until the effort is complete. A limited-capability version is scheduled for release in late fall of 1992. ♦

Missing Data Now Easier to Retrieve

CSI's data release-time track record has been very good over the years and has been fairly consistent with our announced schedule. Occasionally, primarily due to exchange delays, certain markets are posted later than normal. When this happens, a call for data may produce an incomplete portfolio. In the past, subsequent calls to retrieve the missing data were fruitless unless a Customer Service representative was asked to re-set the file on our host computer.

Last month we instituted a new procedure which allows us to automatically identify and flag any portfolio that was retrieved with missing data. A subsequent call to retrieve these portfolios will result in the collection of a re-set file, which will likely include the data that was originally missing.

Be alert for the status MISS (for missing) in your daily data listing. This identifies any file for which data was not received. Typically, incomplete files are exchange related, so calling again a little later should correct the deficiency. A MISS status can also result from a holiday, or from a contract that expired or was deleted from your portfolio. Please double check these possibilities before re-calling for data.

If, after several attempts at retrieval, a contact or stock is still missing from your portfolio, please notify our Service Staff so we can rectify the omission. ♦

New Facility for Automatic History Orders

New CSI subscribers often ask us how much historical data they will automatically receive when new contracts are added to their portfolios. In the past, we've had to say, "Sorry, but we don't offer automatic history processing." No more! Customers who use CSI's automatic contract roll-forward facility in their daily data collection will soon be able to retrieve instant historical information on new contracts rolling into view. The price charged for this history is discounted because of the cost-effective automatic processing.

As always, CSI customers may arrange their custom portfolios in two unique styles. One style involves specifying discrete futures contracts with fixed delivery years. These contracts may be added or deleted by the user, but do not automatically change. The other system involves discrete contracts with variable delivery years. Our host computer automatically changes the contract month(s) updated as they move into the user's window of interest. It is this latter automatic contract roll-forward style that must be engaged to benefit from the lower historical data prices and the automatic history generation.

The normal scenario of use is to identify (to CSI through Customer Service or the Order Subsystem of the upcoming version 4.04 QuickTrieve®) the delivery months of each desired commodity which will eventually be desired. In addition to the list of delivery months, the number of nearest delivery months that should be received each day is also supplied. The user specifies the date of the delivery month or the month prior to delivery on which a given roll forward should occur. Our new automatic history-generation procedure requires one more bit of information: As a standing order to CSI's host computer, the user specifies the number of months of historical data desired when each new contract rolls into

place. The same quantity of data will be provided on each contract.

If you were to download data in this manner, a message would appear on the appropriate roll-forward date reminding you that you should immediately call back to access pre-constructed historical data. Your history files would hold the history for all contracts for which a roll forward had just occurred.

Our mainframe prepares history in advance of the roll-forward date so the appropriately sized historical data file will always be waiting for access immediately following your daily-update call.

Customers using this service will only be billed for history files that are accessed. If you do not retrieve the automatically created history files, you will not be charged for them.

A new version 4.04 QuickTrieve will soon be available that has many improvements including easy access to the Futures Alert Calendar, conversion FROM ASCII to CSI format, and enhancements to the Order Subsystem's Automatic Roll-Forward provisions which can be used to avoid calls to Customer Service. Orders for QuickTrieve version 4.04 are now being accepted, with delivery expected by August 1st. ♦

Upgrade Order Form

(New users please see Product Summary)

- 4.04 QuickTrieve for current CSI users (includes automatic portfolio management, conversion from ASCII and all the latest QT enhancements) \$20
- QuickPlot upgrade (required for compatibility with new QuickTrieve —
 - Upgrade from v 4.0 QuickPlot or higher (with QT upgrade) N/C
 - Upgrade from v 3.1 or lower (with QT upgrade) \$45

AMOUNT ENCLOSED _____ (Prepayment is required) Additional shipping fees apply for overseas orders.

NAME _____ USER I.D. _____

ADDRESS _____

SIGNATURE _____

MC/VISA/AMEX # _____ EXP. DATE _____

MY QT DISK # _____ VERSION _____

07/92

Custom Portfolio & Historical Data Price Reduction

We have been working hard to improve the efficiency of our system, always striving to provide the best possible service at the lowest possible price. Our recent efforts have reduced our costs in providing data, and we are happy to pass the savings on to you! Our current price schedule is shown here. It should be noted that the savings are greatest for larger orders. This price schedule applies to both IBM and Macintosh users.

DAILY UPDATE CHARGES								
QUANTITY COLLECTED DAILY		COST PER MONTH OF DATA				EARLY ACCESS SURCHARGE (All times Eastern)		
Stocks, options & mutual funds	Commodity contracts	Direct-Dial Base Rate	U.S. & Canada network & Telenet via PTT	Non-U.S. via Tymnet (QT format*)	Non-U.S. via Tymnet (non-QT format*)	Noon to 4:45 p.m. (a)	4:46 to 5:20 p.m. (b)	5:21 to 5:50 p.m. (c)
40	10	\$ 27	\$ 40	\$ 49	\$ 70	\$ 15	\$ 9	\$ 6
60	15	38	49	68	78	18	11	8
84	21	44	54	70	82	22	13	9
104	26	49	61	79	89	26	15	11
120	30	56	67	86	94	28	16	12
148	37	68	80	92	108	36	21	15
176	44	79	89	109	119	45	26	19
228	57	96	109	120	130	52	30	22
280	70	111	125	139	152	59	35	24
340	85	127	140	158	168	69	40	29
400	100	140	154	172	182	74	43	31
500	125	160	178	196	208	84	49	35
600	150	180	200	218	232	95	56	39
800	200	220	237	248	276	117	68	49
1040	260	250	275	296	328	136	79	57
1300	325	292	312	340	375	164	95	69

A 10% discount applies to U.S. network users who regularly call between 7 p.m. and 8 a.m. local time (from call origination) and to direct-dial or non-U.S. Tymnet users who call between 7 p.m. and 8 a.m. eastern time. If a portfolio contains a mixture of stocks, funds, options and futures, please use the stock/option/mutual fund column and count each commodity contract as equivalent to four stocks. For quantities between any contiguous pair shown above, add \$2 per contract or group of four stocks up to, but not exceeding the next higher price. Additional charges apply for accessing more than 26 days during a billing cycle. *QT stands for QuickTrieve, CSI's IBM downloader program. Non-QT refer to non-QuickTrieve format, like that used by the Macintosh.

HISTORICAL DATA CHARGES								
TELEPHONE ACCESS (Cost per month of data) No minimum order through Customer Order Subsystem					DISKETTES BY MAIL** (Cost per month of data) \$50 minimum order			
METHOD OF ACCESS	Stocks & Mutual Funds	Normal Commodity Contracts w/automatic* processing	Normal Commodity Contracts and Options	Perpetual Contract* Data	MONTHS OF DATA THIS ORDER	Stocks and Mutual Funds	Normal Commodity Contracts & Options	Perpetual Contract Data
Direct Dial	25¢	29¢	39¢	49¢	First 500	20¢	29¢	45¢
U.S. or Canada Network & Telenet via PTT	30¢	39¢	50¢	65¢	Next 500	15¢	22¢	35¢
Non-U.S. via Tymnet	45¢	49¢	59¢	75¢	Over 1000	10¢	16¢	29¢

General Pricing: Any order of less than six months per contract or three months per option is subject to a \$1 set-up fee per item. A six-month minimum charge applies per stock. Phone history orders placed verbally are subject to a \$10 minimum. Data is sold at a 30% discount for weekly prices and a 50% discount for monthly prices. *The "automatic processing" rate applies to daily-update customers who use CSI's automatic contract roll-forward feature. It refers to historical data supplied automatically when new contracts roll into a portfolio. **Macintosh data diskettes are under development. Please call CSI to confirm availability before ordering.

New Stocks May Need New QuickTrieve

We have been feverishly adding new stocks to the data bank, bringing us well over the 5000-stock limit we had originally set for ourselves. The latest stock additions are listed in our new Stock Fact Sheets with CSI numbers in the 3000 to 4999 range.

Although all versions of QuickTrieve can download these new low-numbered stocks, versions earlier than 4.03 are not able to order them properly through the Customer/Order Subsystem. If you are interested in these new stocks and your QuickTrieve version is older than 4.03, please request them by voice, fax or QuickTrieve's message feature. Please do not use the electronic order form. Requests received through QuickTrieve's electronic order form will be interpreted incorrectly by our host computer.

These stocks are fully supported by QuickTrieve versions 4.03 and 4.04, which are available as optional upgrades. The software upgrade fee is \$20.00 for all existing CSI subscribers. Please see the order form on page 3 for details. ♦

More on Managing Drawdown

(continued from page 1)

the time. Knowing this percentage would help traders immensely. If someone were to say, "Your expected drawdown with System X is 40%, two standard deviations or 95% of the time," then you might be able to make an intelligent decision about whether you would want to invest. I personally would not be able to make a trading decision without understanding how often a given level of quoted drawdown could occur. And my trading readers should not accept glib projections about drawdown without fully understanding what is meant by such claims.

If you are interested in assessing your system's true drawdown risk, consider either CSI's upgraded Trading System Performance Evaluator™ or Trader's Money Manager. You will not only understand your chances of attaining success, but you will have an excellent idea of the minimum level of funding for your account such that you have a good chance to prevail. Both products are available in updated version 2.01. ♦

Bob Pelletier



Independence Day Schedule

CSI will be closed for voice communication on Friday, July 3 for Independence Day. U.S. exchanges will be closed, but data from other exchanges will be available as usual. ♦

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)
- Trading System Performance Evaluator™** - Computes your system's capital requirements \$199
- TraDesk™** - Traders' complete accounting system-(price varies with number of accounts) Starting @ \$399/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

07/92

All prices subject to change without notice.