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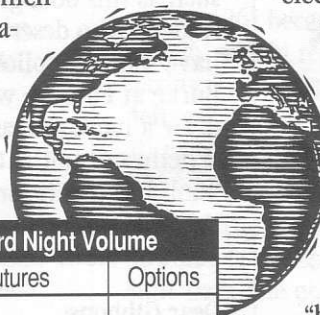
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Globex is Here for Better or Worse

As the U.S. futures markets struggle to cope with our ever-increasing global economy, I find that the CSI staff, and in fact our customers share the struggle. I refer to the new expanded trading hours for several financial markets in Chicago - the Globex system.

The CME and CBT have clearly worked long and hard in bringing about extended trading hours, which they hope will attract more international investors to their exchange. The initial transition has gone smoothly, despite some early problems in reporting prices.



2nd Night Volume		3rd Night Volume	
Futures	Options	Futures	Options
DM..... 1112	0	DM..... 1151	1
JY..... 601	0	JY..... 688	0
T-Notes 5	0	T-Notes 0	0

What does Globex trading mean to investors? So far, Globex at the CBT seems to have generated a large, collective yawn. In a recent two-day period, five T-Note contracts were traded. The third session logged no trades at all. However, the Chicago Mercantile Exchange fared much better. The second night of Japanese Yen trading at the IMM resulted in 601 contracts traded. The third evening, a total of 688 contracts traded hands. Momentum seems to be building, albeit slowly.

Although participation has been light, the impact of the evening sessions can't be ignored. Illiquidity in both the Deutschemark and the Yen

markets has resulted in the wide disparities between the first trade of the session and the official opening price. This suggests thin trading, a situation where market orders might best be avoided.

What does Globex mean to CSI subscribers? Our price quoting policy is like that of newspapers and other electronic quote vendors. We post the "official" CME prices for all futures, which, of course, include Globex prices. The "open" for Globex futures represents the beginning of the prior evening's session. The "high and low" reflect the combined day and evening sessions. The "close" represents the afternoon closing price of the day session.

This reporting method reveals the best (and only) estimate of actual market conditions, based on trades occurring nearly 24 hours per day. Many trading systems now exist and more are being developed which recognize that the "open" merely reflects a point in time, as opposed to a major accumulation of overnight trading pressure. The new 24-hour system of trading fosters a dearth of order accumulation near the session's night open, thereby removing trading liquidity for market-on-open orders. Wishing these new ground rules weren't in effect won't make them go

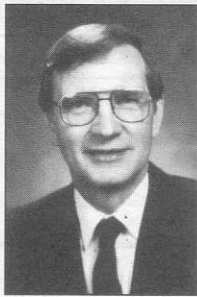
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The Data Debate A Statistician's Point of View



Robert C. Pelletier

"The stationary series known as Perpetual Contract data observe the market 100% of the time where volume and liquidity are a maximum. Conversely, ...90% of a continuous contract series is not germane to the typical trader's near-term market presence."

As a major voice of the futures industry, Futures Magazine generally does a good job of educating traders about topics that should be of concern. Unfortunately, they dropped the ball in the July '92 issue's article regarding the use of normal contract data, continuous data or Perpetual Contract® data for technical analysis.

The article, written by Gibbons Burke, loosely concluded that continuous data using back-adjusted, concatenated contracts is the superior method over individual contracts. CSI's exclusive Perpetual Contract data was mentioned, but was dismissed without debate.

I believe that one-sided articles such as this do a grave disservice to traders, who deserve to hear all sides. I have sent the following letter to Mr. Burke at Futures, which I hope will draw a more unbiased response. Whether or not Futures Magazine publishes this information, I believe that our readers deserve to learn our point of view.

Dear Gibbons:

The enclosed presentation methodically shows how and why constant-period forward Perpetual Contract® data are superior to any other form of continuous time series (or any actual discrete contract) used for market analysis. Jack Schwager and Bruce Babcock (quoted in "The Debate-Continues," July 1992 Futures) are entitled to their opinions, but I strongly disagree with their conclusions. Reliable market predictions are invalid with the type of non-stationary time series they advocate.

The concatenation of many time series into one, after adjusting for jumps and drops in price during contract roll forward, is simple to conceptualize but its proponents may be defeated by this simplicity.

The stationary series known as Perpetual Contract data (a CSI regis-

tered service mark) observe the market 100% of the time where volume and liquidity are a maximum. Conversely, the back-adjusted continuous series advocated by Schwager and Babcock observes the market from the opposite perspective. Since most traders invest in contracts that are from one to four months from delivery, as much as 90% of a continuous contract series is *not* germane to the typical trader's near-term market presence.

"The time decay inherent in futures" is cited by Jack Schwager as the overriding benefit that favors back-adjusted continuous contracts over Perpetual Contract data. Unfortunately, the very reason he favors continuous contracts is what makes them non-stationary and nearly worthless as a predictive tool.

The contemporary economist, Paul Samuelson, has said that futures data in its raw form is not stationary. The Perpetual Contract formula brings stationarity to the futures market. Good things happen when data is stationary. If, by studying data determined to possess stochastic stationarity, you are consistently successful in tracking and predicting market behavior in a given period, then you are likely to have an equal chance of similar performance in another period. This benefit does not hold true for either continuous or for discrete actual contracts where time decay prevails.

Perpetual Contract data may not fit every market perfectly, but objections stem more from their artificial appearance than from their power as an analytical tool. Artificial appearance is an irrelevant complaint. The trader gets his guidance from the transformed Perpetual Contract market data, but he trades one of the discrete real contracts from which Perpetual Contract prices are derived. It can be shown that another criti-

cism, that of difficulty in setting trading stops with Perpetual Contract data, is also not a serious problem to solve.

Unfortunately, strong-minded market gurus suffering from the "not-invented-here" syndrome will continue to dismiss sound ideas as bad. One-sided articles such as your so called "debate" with the empty chair give them a forum. The charts shown on the enclosed excerpt from CSI's Product Catalog help to further illustrate my point of view.

Sincerely yours,

Bob Pelletier

Bob Pelletier

CSI Perpetual Contract® Data

As many a market technician has noted, the inherent birth and death process of futures contracts can be a handicap in forecasting market behavior. The lack of statistical and stochastic stationarity can pose a major problem. These limitations are virtually removed when we transform actual market data into CSI's exclusive Perpetual Contract data.

Our Perpetual Contract formula applies a time-weighted average to futures market prices for a given commodity, always focusing on a constant period forward. The resulting open-high-low-close time series provides a signature of the commodity, which can be used to simulate actual trading.

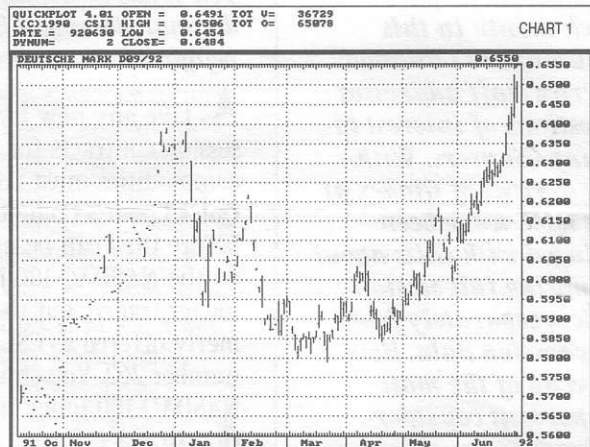
Our Perpetual Contract discovery tends to provide stationary pricing effects, concentrating on the period of greatest interest to the trader. The term "stationary" suggests that the difference in price from one day to the next will represent a stable average. It also suggests that the distribution of prices from one day to the next will, over time, be constant.

Refer to Chart 1 below for an example of an actual Deutschemark futures contract. Compare this example to Chart 2, CSI Perpetual Contract data for Deutschemarks over the same period. The differences are obvious and significant.

In Chart 1, the contract's full birth-to-death cycle is shown. Notice the flat price movement and small price range in the early stages. Compare this with the highly variable conditions when the contract nears maturity. This time series is clearly non-stationary, as evidenced by the slowly changing and ever-increasing volatility.

Any attempt to project future market behavior based on less-volatile past market behavior is clearly flawed. Trading a system based on this data may result in such limitations as stop loss orders that are prematurely touched and underachievement of target price goals.

In the Perpetual Contract data found in Chart 2, we removed most, if not all, of the non-stationary market influences. Although Perpetual Contract prices will rarely match those of an individual futures contract, they will be fairly close to prices where trades are actually made. ♦



Ask Customer Service

Each month in this column, our Customer Service staff addresses questions of interest to many CSI users. With the arrival of Globex at the IMM, we've been deluged with calls about handling full-session prices separately from day-session data. Here is a recap of the most important considerations.

Q. *After Globex started at the IMM, I added the day session Japanese Yen (CSI # 262) to my CSI portfolio. QuickTrieve® created a new file for the NASDAQ 100 Index instead of the Yen. It has the wrong symbol and the decimal placement is different from before. What's the problem?*

A. Like any new issue, the new day-session contracts for the Globex commodities must be added to QuickTrieve's Commodity Constants before they can be updated. Futures on the NASDAQ 100 Index are no longer traded, but they were formerly offered as CSI commodity number 262. You should replace the NASDAQ 100 Index information with the correct information for the Yen. To edit your Commodity Constants:

Select E) Enter Editor Subsystem from the QuickManager Menu

Select C) Edit Commodity CONSTANTS file

Type the CSI number for the original (now Globex) commodity for reference. (Example: IMM Japanese Yen is 65.) Jot down the Conversion factor (4) and Pricing unit (C/YEN). You'll enter the same information for the new day-session file. DO NOT CHANGE THESE ENTRIES FOR COMMODITY 65!

Next type the CSI number for the new day-session contract. (Example: Day session Japanese Yen is 262.) Change the commodity name to a description you will recognize, such as Japanese Yen - Day. Enter the conversion factor, pricing unit and commodity symbol just as they appeared in the reference file. You need not fill in the remaining entries. They are not used. When finished, press <Esc>.

This procedure should be performed before you create a data file for any new issue. Repeat this process for

each new day-session contract you wish to add. This procedure will not change any existing files. It will, however, allow QuickTrieve to create files properly in the future.

Q. *I have a position on the September IMM Deutschemark (CSI #24), which is now available for evening trading under Globex. I am not interested in the evening session, so I get the day session data from CSI as commodity number 261. My problem is that QuickTrieve made a new, separate file for commodity number 261 that doesn't update my original data file. How can I get all my Deutschemark data together in one file?*

A. QuickTrieve made a new file for CSI number 261 because it does not recognize that 261 and 24 represent the same commodity. The contract's commodity number, delivery month and delivery year must all match those of an existing file before QuickTrieve will update that file.

Perhaps the simplest way to correct the problem is to use QuickManager's Move/Split Data File option. First move the 261 data into a new, automatically created file. Select a start date that will encompass the entire history you wish to include. Then use Move/Split Data File again to move data from your original Deutschemark file (CSI number 24) into this new, larger #261 file. Be sure to verify proper transfer when you're finished. You can then delete one or both of the original files. (Note: QuickTrieve's Commodity Constants must be modified before the automatic creation of your new files. An alternative method is to rename your existing data files. Use the Editor Subsystem to Edit Data disk MASTER file. ♦

Globex is Here...

(continued from page 1)

away, so we all better get used to the fact that the rules have changed. More and more markets are expected to move toward 24-hour trading, and this will probably translate into lighter volumes on the opening of the night sessions. The opening range also appears to be greater than what is normally expected for morning open orders. If this continues, most traders should try to avoid market-on-open orders. Thin markets have always translated into dangerous market-order fills.

Notwithstanding the above, CSI has bowed to customer demand by offering some alternatives. This may not be a long-term solution to the problem, but it seems to have appeased many day-only investors who rely on the open price for a particular session. We have begun offering day-session prices for some of the markets also supported by Globex. These are posted just like the day session T-Bonds and Notes which we have provided for years. Prices include the morning's open, the high and low for the day,

and the afternoon close. Volume and open interest figures reflect the day-only sessions.

Fans of computer-driven trading methods can use the full session (Globex + day) to their advantage. When developing a system, instead of using the open price as the assumed entry point of a trade, consider using a limit price that would be subject to predetermined slippage. Reject buy points that fall too near the low and sell points too near the high. Introduce alternative market-on-close fills for unfulfilled limit orders or trades with questionable execution. If any market orders are triggered by questionable fills on limit orders, introduce a realistic slippage penalty to account for thinly traded markets.

This is an example of one way a system developer might realistically deal with this new, changing market environment. The important point here is that market entry and exit price fill assumptions should reflect what will occur in real trading. ♦



GLOBEX

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)

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