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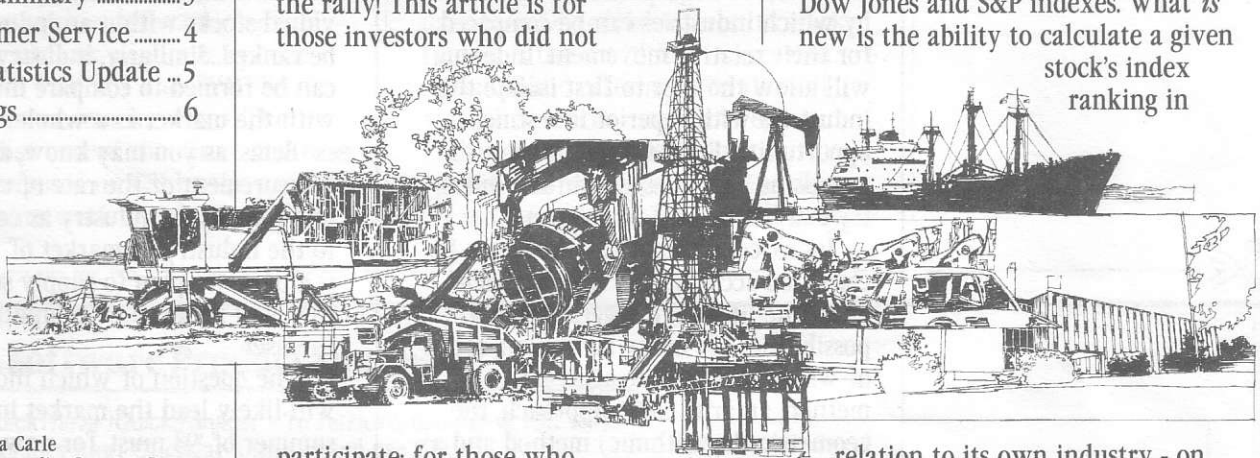
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Price Indices - A method for picking winners

The spring of '93 was a banner season for homebuilders and the industry that supports them. Shareholders of building-industry companies reaped profits (or recouped long-held losses) as this market segment outperformed the rest of Wall Street. Congratulations to all who participated in the rally! This article is for those investors who did not

reveal the industries which hold superior investment suitability. In addition, individual stocks or futures within an industry can be isolated to allow identification of the more promising investment opportunities. The idea of indexing securities is not new, just look at the success of the Dow Jones and S&P indexes. What *is* new is the ability to calculate a given stock's index ranking in



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participate; for those who discovered (just a little too late) where their money should have been. It is for anyone who longs to identify the next industry in which the public will invest before it is announced in the news media. Imagine knowing the securities within the given industry which show the greatest promise and which are the price-improvement leaders deserving of your investment dollars. All this will shortly become available to CSI users through industry price indices, a new data series we are developing at CSI.

Relative price movement of a security or industry is often tracked through index numbers. Properly formed indices can be used to compare one industry with another and to

relation to its own industry - on your own computer, with daily precision.

The method chosen for index number formation is critical to the usefulness of the index. A system for determining index numbers should factor markets by their relative rates of change over time, not their absolute movement. And a percentage change in one period should be directly measurable and comparable to another period. A good index number methodology should be capable of adding, deleting, substituting and expanding the longevity of series without appreciably changing the characteristics of the index. If a series is expanded backward in time, the

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Price Indices ...
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“Indexing will allow the user to first isolate the industries with superior investment opportunity. From there, the more promising securities within the industry can be chosen for investment.”

indexing method should also not disturb the index forward of the period in place. The approach one settles upon should be suited for use with trade timing products such as neural network or strange attractor methods (watch for more on this in future journals) so investors can apply the results to third-party products.

These concerns were addressed when we formed over 200 security industries from among the thousands of stocks in our data base. In this massive effort for our customers, we have grouped stocks within their respective industries. Through indexing methods, we have produced a means by which industries can be compared for their relative movement. Indexing will allow the user to first isolate the industries with superior investment opportunity. From there, the more promising securities within the industry can be chosen for investment.

Index construction methods can be classified according to the approach used. The literature suggests several possibilities for index formation, some of which include: the aggregate method, an arithmetic approach, the geometric (logarithmic) method and a method based on medians.

I have found that the aggregate approach can be dismissed quickly because it requires summing the prices of dissimilar markets regardless of units of measure to form an index of total prices. The arithmetic approach is a step up from the aggregate method. With this approach, every market within the index is calculated with regard to the base year. However, with the arithmetic approach, each market within the index receives equal weight producing an averaging of relatives. The median approach also has merit because the central arithmetic relative is used as the index for the year and no single market can dominate the result. One cannot argue with its appropriateness as a representative

reading, but it still falls short because of its dependence upon the arbitrarily selected base year. The geometric or logarithmic method is the only viable way to construct an index. With logarithms, one can focus upon a base period to begin the index construction and later expand the series backward in time as greater longevity is introduced. In next month's Technical Journal we will discuss all of these indexing methods in more detail and show why we have chosen a logarithmic method for our stock indexes.

Once the industry indices are formed, they can be used to help calculate market betas so that individual stocks within an industry can be ranked. Similarly, industry betas can be formed to compare industries with the market as a whole.

Betas, as you may know, are a measurement of the rate of change of one security or industry as compared to the industry or market of which it is a part. We plan to supply software that will make these computations for the user.

The question of which industry will likely lead the market in the summer of '93 must, for now, go unanswered. Most of us will learn about it from Business Week, the Nightly Business Report or our morning paper as the season unfolds. But the future looks brighter for investors. At least some of our new indexes will be available to CSI subscribers by fall or winter. We believe they will help our customers be at the right place at the right time. And so, for those who usually discover (just a little too late) where their money should have been, we will announce more on how these new indices can be used to make more timely decisions. Please watch future CSI Technical Journals for details. ♦

Bob Pelletier

European Customers Unaffected by Overseas Rate Hikes

All overseas CSI customers received an insert in their June '93 invoices which detailed a new pricing structure. The changes in pricing are for network data retrieval from selected overseas locations and do not affect our European, Canadian or domestic U.S. subscribers.

Due to unexpectedly high network telephone charges, we have been forced to increase our rates for network access for some international customers. Although our European customers are not affected, network callers from the Pacific Rim, Middle East, Caribbean and South America will see higher rates beginning this month. These apply retroactively to June '93 daily update charges.

The new prices reflect higher character and per-minute telephone charges for TYMNET and TYMUSA access from various locations. The charges that exceed the direct-dial base rate are imposed on CSI by the packet switching network and do no more

than cover our costs. Direct-dial and PTT rates have not changed. If either of these access methods is more economical for you, we urge you to reconsider the network alternative.

For a complete schedule of prices for network data retrieval from non-European overseas locations, please contact CSI marketing or customer service. ♦

Look for IPOs, Movers and Mergers

As promised, this issue of the CSI Technical Journal includes an expanded listing of changes to the stock data base. Of special interest to stock traders is the list of new issues that are initial public offerings. We also tell you when stocks move between exchanges, change their names or symbols and when they merge or delist. See pages 5 & 6 for these new offerings. ♦

Holiday NEWS

CSI will be closed for voice communication on Monday, July 5 for the Independence Day holiday. The CSI host computer will be accessible as usual throughout the holiday weekend.



CSI Software Product Summary

- QuickTrieve®/QuickManager®** - To retrieve, manage & edit data; includes Alert Calendar: Unrestricted use \$99, Daily data user \$39 and 4.04 Upgrade \$29
- QuickPlot®/QuickStudy®** - Charting & analysis software (requires QT/QM) \$156 Currently on sale @ \$99
- Trade Data Manager™** - Macintosh downloader & accounting program; includes 1st month of updates \$99
- Trading System Performance Evaluator™ (TSPE)** - Computes your system's capital requirements \$199
- Trader's Money Manager™** - Introductory price \$499 (includes TSPE)
- 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** - Ten years of history for 33 popular commodities \$444
- Daily Updates** - Starting at \$10.80 per month
- CSI Technical Journal** - Aug. 1990 to present \$35/Yr. or \$5/Reprint
- CSI Mailing List** - \$200/1,000 names (CSI users omitted)
- CSI Product Catalog** - Free

CHECK MASTERCARD VISA

AMOUNT ENCLOSED \$ _____

CARD # _____

EXP. DATE _____

NAME _____

DAY PHONE (____) _____

ADDRESS _____

SIGNATURE _____

USER ID#: _____

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07/93

All prices subject to change without notice.

Ask Customer Service

Each month in this column, our customer service staff addresses a topic of interest to many subscribers. This month, they discuss some common questions regarding stock splits and mutual fund distributions.

Q. *One of the stocks I update from CSI had a two-for-one split recently and the prices are now about half of what they were. I realize that the new prices are correct, but they are giving me problems with my technical analysis. Is there a way to restore continuity to my data files after a split?*

A. Use QuickTrieve's® MOVE/SPLIT A DATA FILE feature (H on the QuickManager® menu) to back-adjust your historical data to match the new prices. You'll need to know the date of the split and the exact split ratio before processing the data. You can get this information from the CSI Technical Journal where we list new splits each month, or you might ask your broker. Your resulting file will show all your data at the post-split level.

Q. *Can QuickTrieve handle a reverse split?*

A. Yes, just enter the split values as requested and the correct adjustment will be made.

Q. *I've just started trading a stock that has split many times and I'd like to get some historical data for analysis. How do you handle stock splits in your historical data base?*

A. Unless otherwise specified, we deliver historical data that has been adjusted for stock splits. If, for example, today's price for a stock is \$50 and tomorrow it has a two-for-one split, we adjust our historical data such that the \$50 price is quoted as \$25. Stock history without adjustments for splits is available upon request. If you would prefer to have historical stock data without adjustments for splits, simply make your wishes known when ordering.

Q. *In reviewing a split-adjusted stock history file, is there any way of telling when a split occurred?*

A. No. Our files do not include a field to mark stock splits.

Q. *To my way of thinking a mutual fund distribution is essentially the same as a stock split. Do you back-adjust mutual fund data to reflect dividends and capital gains distributions?*

A. No, we don't. If, however, you wish to make such adjustments to your mutual fund files, you may do so using the MOVE/SPLIT A DATA FILE feature. There are provisions in the software to handle either dividends, distributions or both.

We quote dividends and distributions as part of our mutual fund data files; however, we do not guarantee the accuracy of dividend and capital gains reports.

Q. *I accidentally entered an incorrect value in adjusting for a stock split. Now my historical data has all been overwritten with wrong numbers. Is there any way to fix this?*

A. If you know what values you entered, you can try reversing the process by running the stock split adjustment with the opposite figures. If you aren't sure what values you used for the first split, please don't experiment by guessing. A small miscalculation can result in numbers that are close, but not exactly what they should be. In order to maintain the integrity of your data base, we recommend writing stock split information to a new file. This way you can preserve your original data for backup until you're sure you've got it right ♦