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Editor: Sabrina Carle  
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**Advice for Washington: "Past Performance is No Guarantee of Future Results"**

Futures and stock traders have, no doubt, seen the above warning before. Similar notices appear on advertisements for investment advisors, mutual funds, trading software and the like. When advertised results are based on simulated trading, the disclaimer may be more detailed, indicating that hindsight bias may have played a role and that some trades may not have been executable in real time. It is no coincidence that so many in the investment industry wish to warn potential clients in this way. It is the law.

Apparently our government wishes to protect us from believing that past results, particularly when they may have been curve-fitted retrospectively, are likely to be repeated. This makes me wonder why they don't include such a disclaimer on their own Index of Leading Indicators.

Investor's Business Daily recently published an article exposing the U.S. Commerce Department's official Index of Leading Indicators as just such a curve-fitted creation. This index is touted as a guide to forecast an impending recession so that businesses and consumers can be better prepared. The Commerce Department says that

three months of decline in the index following a peak may indicate an economic downturn. From that point, there is an average of a two-month



**FORECASTING THE PAST:** The Commerce Department's official version of its index of Leading Indicators is actually a reconstructed history. Arrows show peaks in the index before a sharp downturn, indicating that the index - in its present form - would have accurately indicated all the recessions in the past 40 years. The real-time performance of the index, however, was not as accurate.

lead time before the recession begins. To view the Commerce Department's record, (see figure 1) the index's performance in predicting recessions over the past forty years is flawless. Unfortunately for those who relied on it in the past, the index's true performance in real time has been much less accurate. The sad fact is that yesterday's history has been rosily re-written.

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## Advice for Washington...

(continued from page 1)

***"Hindsight vision is 20/20 whether you are the U.S. Department of Commerce or an individual attempting to conquer the markets."***

An example cited in IBD was the last U.S. recession, which began in July, 1990. According to IBD, the Index readings available at that time peaked in August, 1990. That's one month after the recession began and about five months behind where it should have peaked according to the early warning guidelines. And then there was the recession of 1974, which was completely missed in the index's original release!

Look at figure 1 again. You'll find a clear peak and trough for the '74 recession. And not even a lag for the recession of 1990. What gives? The index has been recalculated using hindsight manipulations, much the same way system developers re-work their optimized trading indicators. Since government economists know from hindsight testing precisely when each recession has occurred in the past, they can re-weight the parameters of their model to produce predictions that are usable in hindsight.

Is this any different from the trading system developer who uses past price performance to find strategic points of purchase and sale to maximize would-be profits? Of course not! It is exactly the same. Fortunately for the government, they have a much simpler problem to solve and no fear of prosecution should their ill-conceived index harm the public.

In the past 40 years, only nine recessionary periods have been observed. To do their hindsight job of prediction on only nine points in time requires a minimal effort. The government can choose from among dozens of parameters to produce a reliable result given that only nine data points need to be addressed. I should think that with all the mathematical possibilities, they could develop an index that would retrospectively mimic the economy down to a gnat's eyebrow.

On the other hand, the trading advisor's system may produce hundreds

of hypothetical trades based on far fewer control parameters. These alternating buy and sell decisions are executed in hindsight. Given the lesser freedom-restricting control taken by the trading system, its future results are more likely to be good. Be wary of the government's product which may use more control to solve a less complex job. The job of predicting a recession in our economy is very complex; The job of curve fitting an index to match nine data points is not.

We have often stressed in this Journal that too much freedom-restricting control brought about through excessive parameter consumption will destroy the future performance of an indicator. It seems that the Index of Leading Indicators is an excellent example. The IBD article cites two economists (one with the Federal Reserve) who state that the Index of Leading Indicators has little value as a forecasting tool. The same can be said for any trading system that has been over-optimized.

Hindsight vision is 20/20 whether you are the U.S. Department of Commerce or an individual attempting to conquer the markets. With so much hindsight bias in the Index of Leading Indicators, it seems the government should issue a form of its own disclaimer: "Past performance or hindsight results may not be indicative of future results." Those who depend upon the government's early warning device should be given the same courtesy that the government expects commodity trading advisors to give prospective clients. ♦

*Bob Pelletier*

Chart reference: Courtesy of Investor's Business Daily - September 2, 1993.

# Order IBM QuickTrieve® 4.05 Today!

As this Journal goes to press, we are still wrapping up the final programming details and dotting the i's in the manual for QuickTrieve version 4.05. It appears that we will miss our anticipated November 1 release date, but the program should be available later in the month.

The most important new features of QT v4.05 are:

- On-line history on demand, 24 hours a day, seven days a week
- Automatic file extension
- Stock Constants File
- Stock and Commodity Search
- Improved automatic file sorting into subdirectories
- Support of larger price fields
- Better support of multi-layer

- subdirectories in CompuTrac
- Tutorial with basic QuickPlot instructions

We expect that every subscriber will want this new program, if only for the ability to instantaneously draw down historical data on-line and avoid end-of-year file maintenance on continuous contracts.

To order QuickTrieve 4.05, complete the form below and mail or fax to CSI. If you mail it with your invoice, please include a separate check or credit card number for the software. We will not deposit your check or charge your credit card until your software is shipped. All orders will be shipped on a first-come, first-serve basis, so please order promptly. ♦



*Bulletin*

## QuickTrieve 4.05 Upgrade Order Form

(For existing CSI customers. All others please use the Order Form on page 5)

Name \_\_\_\_\_

Address \_\_\_\_\_

Day Phone ( \_\_\_\_ ) \_\_\_\_\_ Fax ( \_\_\_\_ ) \_\_\_\_\_

User ID \_\_\_\_\_ QuickTrieve Disk number \_\_\_\_\_

**Pricing:**

Daily User Upgrade: \$29.00 \_\_\_\_\_

Overseas shipping (if applicable) \$24.00 \_\_\_\_\_

**Optional additions:**

Non-expiring version - add \$70.00 \_\_\_\_\_

QuickStudy® graphics & analysis - add \$99.00 \_\_\_\_\_  Check enclosed

**Total Enclosed** \_\_\_\_\_  MC/VISA/AMEX

Card # \_\_\_\_\_ Exp. \_\_\_\_\_ Signature \_\_\_\_\_

**Disk Preference**

5.25"/360K  5.25"/1.2 MB (High density)  3.5"/720K  3.5"/1.44 MB (High density)

CoProcessor?  No  Yes

Have you previously purchased QuickStudy (26 technical indicators)?  Yes  No

Have you previously purchased a non-expiring QuickTrieve?  Yes  No

Current users of non-expiring disks & QuickStudy will receive comparable versions of v.4.05 at the Daily-User-Upgrade price, subject to verification of prior purchase.



## Ask Customer Service

*Each month in this column the Customer Service staff addresses some common questions from our customers. This month they discuss issues concerning CSI's billing procedures in a question-answer format.*

**Q.** *Sometimes my invoice shows a prior balance even though I know I have paid my last bill. How can I assure that my payments are processed promptly and correctly?*

**A.** The due date of your CSI invoice is the 15th of the month. All payments received by the 20th are noted on your invoice, while those received after the 20th won't appear until your next statement. To assure prompt credit, please be sure your payment arrives on time. Also write your User I.D. on the check and include the payment stub. Please, do not staple your check to the stub. If your invoice does not reflect a payment that may have crossed in the mail, simply disregard that portion of the bill.

**Q.** *I would like to pay my invoices by credit card instead of by check. Is this possible?*

**A.** Certainly. Many customers, especially overseas users, find credit card payment simple and efficient. If you would like automated monthly billings on your credit card, please request an authorization form from CSI and return it to our bookkeeping department. Starting the following month, you'll receive a receipt with your invoice. If you prefer to preview your charges each month, you may call or fax authorization at your discretion. We'll need your name, User ID, credit card number with expiration date and the dollar amount of the charge. CSI accepts MasterCard, VISA and American Express.

**Q.** *What should I do if there is an error on my bill?*

**A.** Call our Bookkeeping Department. They can be reached from 9 a.m. to 5 p.m. eastern time Monday through Friday (holidays excluded). Please have your invoice number on hand and be prepared to say why you feel the bill is in error. Your billing questions will be

handled promptly and courteously by our bookkeeping staff.

**Q.** *How many calls for daily updates may I make in a month without incurring extra charges?*

**A.** Our price schedule allows for 26 updates during a billing cycle, even though there are normally just 21 trading days. Accessing more than 26 updates will result in higher costs.

When more than 26 updates are requested for a custom portfolio, the next month's bill shows a PA (Prior Adjustment) based on the number of items collected and the number of calls exceeding 26. The rate is 5 cents per item per day for direct-dial access and 6 cents per item per day for network access.

For a fixed portfolio, you would not have to prepay for your service. Therefore, your next bill would show the normal monthly rate for the fixed portfolio plus an extra-call surcharge of 4% per access exceeding 26 updates.

**Q.** *I'm a little confused about what constitutes an update. If I call on Friday and pick up the last week of prices, is this counted as one or five accesses?*

**A.** Although you have technically accessed our host computer just once during the week, you have accessed your portfolio for five days. Therefore, the Friday call would count as five of your allotted 26 updates. Most users avoid accessing redundant days by requesting the *all-uncollected-days* option offered by QT 4.03 and higher.

**Q.** *When I change my portfolio, I like to go back and get a few weeks of history through QuickTrieve's daily update routine. The system allows me to get the last nine to ten weeks on my portfolio at no extra charge, right?*

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## Ask Customer Service

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**A.** WRONG! QuickTrieve does allow you to pick up the last nine to ten weeks of back data through its Multiple Days collection calendar. This feature is intended to make it easy to fill gaps in your data base that occur when you do not use the service regularly, not to make redundant calls for the same days. As a courtesy to new subscribers, we also allow a one-time access of the past nine to ten weeks during the first month of service. When a portfolio is accessed redundantly to retrieve a changed portfolio, extra access surcharges, as described above, will occur. You may find it much more cost effective to order historical data on the new items in your portfolio instead of using the daily update

method.

**Q.** When can I change my portfolio most economically?

**A.** Fixed portfolios should be changed on the first of the month. Retrieving two different fixed portfolios during a single month can result in double billings.

Custom portfolios should be changed before the 20th. Our computer always assumes the prior month's activity will be repeated, so your pre-invoice for daily updates will reflect the average number of items retrieved during the prior billing cycle. On the other hand, if a reduction in portfolio size results in an overcharge, any extra charges will be returned to you in the form of a PA credit the following month. ♦



## CSI Software Product Summary

- QuickTrieve®/QuickManager®** for PC - To retrieve, manage & edit data; includes Alert Calendar. Unrestricted use \$99, Daily data user \$39 and 4.04 Upgrade \$29
- QuickPlot®/QuickStudy®** for PC - Charting & analysis software (requires QT/QM) \$156 Currently on sale @ \$99
- Trade Data Manager™** - Macintosh downloader & accounting program \$59; upgrade \$49 or *FREE* with \$100 history order.
- Trading System Performance Evaluator™ (TSPE)** for PC - Computes your system's capital requirements \$199
- Trader's Money Manager™** for PC - Introductory price \$499 (includes TSPE)
- TraDesk™** for PC - 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** for PC - Ten years of history for 33 popular commodities \$444
- Daily Updates** for PC - 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*

NAME \_\_\_\_\_

DAY PHONE ( \_\_\_\_ ) \_\_\_\_\_

ADDRESS \_\_\_\_\_  
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 \_\_\_\_\_

USER ID# \_\_\_\_\_

5¼" DISK       3½" DISK

CHECK       MASTERCARD       VISA

AMOUNT ENCLOSED \$ \_\_\_\_\_

CARD # \_\_\_\_\_

EXP. DATE \_\_\_\_\_

SIGNATURE \_\_\_\_\_

11/93

All prices subject to change without notice.

Mail to: CSI, 200 West Palmetto Park Road, Boca Raton, Florida 33432