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Don't Let Deception Become Your Reality

As we hope you have discovered first hand, many technical trading systems for the stock and futures markets are capable of producing profits. Unfortunately, many more techniques that appear to be profitable are merely vehicles of deception. Reality, for you as a trader, is the long-term path you follow in your quest for profits. Reality is shaped and expanded with each trade you make. If your trade-timing method is based on sound, tried and proven principles which have been honestly followed, then your reality should be synonymous with success; If your trading is based on deception, reality will, in the long run, be synonymous with failure.

Deceptions come from many sources and take many forms. Key areas are: deceptions of inconsistency; deceptions in advertising and deceptions through hindsight analysis.

Deceptions of Inconsistency

Sometimes traders deceive themselves by misinterpreting their own profit and loss margins. This can happen when great inconsistency of profits occurs from year to year. Consistency and moderation are as important in trading system performance as in other areas of life. Here is an example of what can happen when a system won't permit consistent back-to-back annual gains:

A trader was very pleased that he earned \$1,000,000 in profits the very

first year he used a new system. The second year things didn't go nearly so well when he logged an \$800,000 loss. That trader might unknowingly deceive himself into thinking that his system has been mildly profitable

Self Deception - vs - Reality

	1st Year Profits	2nd Year Profits (loss)	Overall Performance
Deception	+ \$1,000,000	-\$800,000	+ \$200,000
Correction (taxes)	-\$396,000	0	-\$396,000
Reality	+\$604,000	-\$800,000	-\$196,000

A seemingly profitable system can produce disastrous results when profits are inconsistent from year to year.

because of the \$200,000 net gain from the two-year record.

In fact, this system is highly unprofitable to the tune of \$196,000 in losses. Why? We'll spell it out for you: T-A-X-E-S. With President Clinton's 39.6% tax rate, the \$396,000 tax paid in the first year is a sunk cost that is gone forever. It cannot be reduced or refunded against an \$800,000 loss the next year. To maintain reality, the \$1,000,000 before-tax profit should be logged as a more modest \$604,000 after-tax profit. Naturally, the \$800,000 loss retains its full value in the real world.

Deceptions in Advertising

Deceptive marketing techniques for trading systems are not necessarily illegal ploys. An advertisement may report facts honestly, but take advantage of the trader's desire to accept an

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Don't Let Deception...

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"An advertisement may report facts honestly, but take advantage of a trader's desire to accept an inference of profitability."

inference of profitability. Over the years many trading methods have surfaced that have made great advertising copy, but which could represent likely deceptions. I recall a system of several years ago which predicted the date of an intermediate market turning point within two trading days. The promoter alleged he could do this several years in advance 51% of the time.

This may appear to be an incredible feat until you realize that "intermediate turning points," as the promoter defined them, occur at a frequency of 25 times per year. This is an average of once every 10 trading days. When you factor in the generous "within 2 days" liberty, you can see that one would expect to be accurate 50% of the time on a chance basis.

The promoter did nothing illegal in his prediction promise. He was telling the truth in his claim, even though he may have had a different analysis for coming up with the same result. The effective deception, if any, was in inferring that such a method can turn consistent profits after commission and slippage. Only the long-term track record of such an approach would tell the true story about the turning point system's merit.

One last detail of this system that deserves mention: A turning point occurs when the market changes direction from up to down or from down to up, but you are not told which to expect. A deception? Of course!

Examining a more recent technologically sophisticated market tool, I do not believe that neural networks are trading deceptions when applied properly. But I have read articles in popular futures industry magazines and other publications which prove that some technicians and writers have taken liberties that create deceptions from them. Labeling a product a "neural network" is not the same as producing a profitable system.

Neural networks have been used successfully to solve some very complex engineering problems. However, the developer who uses the term loosely may have easily ignored one or more basic neural network principals in bringing his approach to the public. Demand explicit, real records before you buy. Make sure the system you purchase has been proven to produce profits in the markets. The profit-and-loss record will help prove substance over deception.

Deceptions Through Hindsight Analysis

With the many toolkit programs available to traders today, the unfortunate tendency of self-deception through curve fitting has been raised beyond acceptable levels. A market trading simulator that takes into account the aggregate of buy and sell prices for simulated trades is likely to project profits that greatly exaggerate the system's real-life capabilities. Why? Because the more control parameters used in creating a trading system, the less likely it is to repeat the simulated past. Failure to consider the high cost of commissions and slippage, particularly on a short-term trading system, can also grossly inflate simulated profits. The trader who ignores these truths is clouding his reality and threatening his bank account.

Deciding what method will bear the test of time and produce consistently profitable results is the necessary step every successful trader must take. A major factor in the success of any trader is how well one differentiates between a real profit-producing idea and one that deceives us into thinking it will be profitable.

A profitable trading system need not have a rigorous mathematical foundation, nor must it be based on complex economic principles to be worthy of trading. For example, we discussed a very simple, but profitable single-

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Free History for QuickTrieve® 4.05 PC Users

As a special bonus to users of QuickTrieve 4.05, we're offering 100 months of free History On Demand per customer. If you use QuickTrieve 4.05 for daily updates or historical data retrieval, you are eligible to receive your first 100 months of futures and stock/index data retrieved "on demand" on or before February 21 at no charge. Our accounting system will only recognize February requests for this offer, which is an incentive to purchase this powerful new software version.

This giveaway applies to orders for stock, index, mutual fund, commodity and Perpetual Contract® data placed through QuickTrieve's Order Subsystem and requested for immediate retrieval via modem. Due to temporary limitations on access longevity, this offer is restricted to dated information from January 3, 1993 through the date you access. Commodity orders may include requests for normal contracts, cash, nearest futures and even Perpetual Contract Data.

To order, simply start QuickTrieve (version 4.05 only) and request your history through the Order Subsystem. When asked: "Do you want to collect phone history at the time the order is sent," answer (Y)es. (The price estimate shown will not reflect the free 100 months of data.) You can then transmit your order when you retrieve your next daily update or use the Send Work Done this Session selection to transmit your order immediately. Either way, your historical data will be retrieved in the same phone call as the order transmission without further prompting. Please see pages 10-19 of QuickTrieve's new Tutorial for further details.

Why are we doing this? Our History-On-Demand feature for PC users is the most significant enhancement we have offered in many years and we'd like to show it off. We want everyone to experience the simplicity and convenience of retrieving history on demand.

If you don't yet have QuickTrieve version 4.05, it's not too late to order the software and retrieve your free history by February 21st. To order this software by phone, call CSI Marketing at (407) 392-8663. For mail orders, see the Product Summary on page 5. See Ask Customer Service for more information on History On Demand. ♦

1994 Commodity Alerts Calendar Now Available

The 1994 Commodity Alerts Calendar is completed and ready for delivery. This calendar, which is accessible through QuickTrieve, includes listings of first notice days, last trading days, etc. for U.S. futures markets, as well as dates for important government reports that affect investors. The dates of trading holidays at major world exchanges are also included. This extensive database of information is available for \$20 to CSI subscribers. Purchasers of QuickTrieve version 4.05 may purchase the calendar disk at a discounted price of \$10.00. Please see the Product Summary on page 5 for ordering information or call CSI at (407) 392-8663 to order. ♦

Mac History Prices Unchanged

The new price schedule posted in last month's Technical Journal applies to QuickTrieve users with PC computers and does not apply to data supplied through our Trade Data Manager™ software for Macintosh.

We hope to offer similar discounts to our Macintosh customers when features such as on-demand history are available on their systems. Our costs in processing Macintosh history orders are so high that we are unable to offer a price reduction at this time. ♦



Ask Customer Service

Each month in this column our, Customer Service Staff addresses common questions of interest to many users. This month, our new History-On-Demand feature (available in QuickTrieve version 4.05) has been generating a lot of calls and questions.

Q. *What exactly is History On Demand?"*

A. "History On Demand" is historical data that is ordered through QuickTrieve version 4.05's Order Subsystem for PC users and requested for delivery via modem in the same transmission. These orders are received and processed and the data is transmitted directly by the CSI host computer with no assistance from the CSI staff. As you might imagine, this method is a boon for us all: For our customers, it gives the added convenience of immediate retrieval of the data you desire - 24 hours a day, seven days a week. For the CSI staff, the automated processing provides more time for training and for giving personal attention to customer problems.

Q. *Is History On Demand priced the same as other history data I retrieve by phone?*

A. No; It is significantly cheaper! As we announced last month, we have drastically slashed the price of all historical data offered by CSI for PC users, especially when data is ordered "On-Demand" through QuickTrieve 4.05. When you retrieve History on Demand, as opposed to "Assisted History Orders," you save 10¢ per month of data for U.S. and Canadian markets and 15¢ per month of data for overseas markets.

Q. *I tried to order and download a long history of soybeans for immediate retrieval through QuickTrieve, but my order was not processed. Please explain the problem.*

A. Our new On-Demand service is very popular, but is still not completely functional. At this time, we offer all history on the stocks in our data base through this service. Historical data for commodities is scheduled for release in early February and will be temporarily

restricted to pricing for the year 1993 and up to the current date in 1994. We will be extending the beginning availability date back to the first date on file over the next month or two. For commodities, an error message may indicate a delay in getting the service operational. If you get an error message, please wait a few days before trying again.

Q. *Regarding pricing, do your standard set-up fees and minimum orders apply to History-On-Demand?"*

A. Our normal set-up fee of \$1 per contract when less than six months of commodity data are ordered does not apply to On-Demand History. Nor does our standard six-month minimum for stocks. There is a three-month minimum order per stock or commodity contract for On-Demand History. When less than three months are ordered, the three-month rate will apply.

Q. *How can I be sure I'll get the new low rates for data I order through QuickTrieve?"*

A. Orders placed using the ORDER HISTORICAL INFORMATION section of QuickTrieve 4.05's Order Subsystem qualify, but only when they are requested for retrieval at the time the order is sent. History files that are retrieved on a subsequent phone call do not qualify. They will be priced at the new reduced rates we announced last month for "Assisted History Orders." History-on-disk orders are also ineligible for the On-Demand rates.

If you have questions about the CSI Data Base, QuickTrieve or any of CSI's other software products, please feel free to contact our Customer Service Department for assistance. We will address common questions in future issues of the CTJ.

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QuickTrieve 4.05 Report

After a couple of false starts, QuickTrieve version 4.05 is finally retrieving data and making life easier for all CSI subscribers who requested it. Those who use a version with co-processor support should have received an immediate replacement to correct a problem in the program. All 4.05 users should also have received another mailing which included a revised disk and a complete set of manual pages. The program revisions correct a bug in the conversion routines for CompuTrac/Metastock format.

If you have not already installed the corrected disks, please do so now. To confirm that you have a corrected version, change to the \QUICK directory and type: QV <Enter>. If the

version date displayed is 12/28/93 or before, your QuickTrieve still holds some faulty code which should be replaced. Call CSI Customer Service to request a correction disk. Experienced PROCOMM users can download a patch file from our BBS with a few simple instructions from Customer Service. ♦

Ask Customer Service

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Q. Can I get option data "on demand?"

A. No. Option data will not be available by this method until much later in 1994. Option data must be ordered via the "Assisted history mode" and may be received by phone or disk. ♦



CSI Software Product Summary

Please check all that apply and complete the information box at right.
Mail or fax to CSI, 200 West Palmetto Park Road, Boca Raton, Florida 33432; Fax: (407) 392-1379

- QuickTrieve®/QuickManager®** for PC - To retrieve, manage & edit data (includes 1994 Alerts Calendar); Unrestricted use \$99. New daily user \$59. QuickTrieve/QuickManager version 4.05 upgrade (for current QuickTrieve users only): with Alerts Calendar \$39, without Alerts Calendar \$29.
- QuickPlot®/QuickStudy®** for PC - Charting & analysis software (requires QT/QM) \$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 _____

USER ID# _____

DISK PREFERENCE

5.25"/360K 5.25"/1.2 MB (HIGH DENSITY)

3.5"/720K 3.5"/1.44 MB (HIGH DENSITY)

METHOD OF PAYMENT (PREPAYMENT REQUIRED)

CHECK MASTERCARD/VISA AMEX

AMOUNT ENCLOSED \$ _____

CARD # _____

EXP. DATE _____

SIGNATURE _____

2/94

All prices subject to change without notice.

Don't Let Deception...

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parameter breakout system in the October '93 CTJ. A comprehensive evaluation of worth and future potential is really needed for any system *before* dollars are invested.

The need for an objective test of trading systems prompted me to write and offer the Trading System Performance Evaluator (TSPE) and the Trader's Money Manager (TMM). Although my contributions to the CSI Technical Journal are not meant to be advertisements for our products, I occasionally mention a CSI product which might be useful in a given situation. The act of evaluating the performance of a trading approach is such an example. Unfortunately, many investors don't learn that the capability to evaluate a system exists until after funds are risked and lost. I know of no other product than our own Trading System Performance Evaluator or Trader's Money Manager that will accomplish the required performance assessment function in advance of your initial trade. Unless you have years of proven experience with a tried and true approach, there is no other way of telling whether a given system approach has the necessary merit.

Among other things, TSPE and TMM analytically remove the deceptive tendencies of simulated track records. This helps you determine whether or not a system is likely to be profitable before investing funds. These programs study a trading system's track record taken over an extended period of time and use extensive Monte Carlo simulations to test for repeatability. From there they determine the probability of reaching a given goal with your starting capital. They require a respectable sample size (a list profits and losses from at least 50 trades), which helps to guarantee a level of profit duplication. Additional requirements include an assessment of average commission and slippage, and an honest disclosure of parameter consumption when the P&L string represents simulated trading.

Several CSI staffers were gratified to hear a glowing, impromptu testimonial on TMM (TSPE's more advanced upgrade) from a trader at a local investors' group last month. This particular TMM user makes his living trading the S&P 500 and said he uses our software before every trade. We do not sell a large number of copies of TMM or TSPE because, I think, traders have been convinced by software vendors that their products are so good that further testing isn't necessary. Avid TSPE and TMM users tell us otherwise. We feel so strongly that these programs will help your trading, that we are offering them at a discounted rate to readers of this Journal. Mention this article to receive a 30% discount on TSPE or TMM before March 15th.

Users of TSPE and TMM are spared the painful frustration and expense of learning first-hand that a trading

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Market Statistics Update

STOCK SPLITS

5382	AGE	A G Edwards	5/4	940104
8068	AMFI	Amcore Financial	3/2	931214
4042	ASBI	Americana Bancorp	3/2	940110
8687	FCOM	Aristle Cp	5/4	931231
8125	AIND	Arnold Ind Inc	2/1	931220
6817	ACAM	Autocam Cp	3/2	940111
7033	BEZ	Baldore Electric Co	6/5	940110
5300	BNL	Beneficial Cp	2/1	931216
3654	BBA	Bombay Co	3/2	940103
2191	BCM	Brush Creek Mining	1/15	931129
8164	BSBN	BSB Bancorp Inc	3/2	931213
3053	BSH	Bush Industries	3/2	940110
7089	CGC	Cascade Natural Gas	3/2	931221
2199	CCRC	CCR Inc	1/3	931227
6967	CHF	Charter Fed S&L VA	1/5	931221
4820	CVAL	Chester Valley Bancorp	5/4	931220
2148	CHES	Chester Holdings	1/5	931228
7117	CMC	Commercial Metals	4/3	931228
4555	CACC	Credit Acceptance Cp	3/2	931227
3364	DMK	Dimark Inc	2/1	931229
7391	EMC	EMC Cp	2/1	931213
4984	FNF	Fidelity Nat'l Financial	3/2	931227
8698	FLAG	First Fed S&L Assoc	2/1	940111
8703	FFBC	First Financial Bancorp	4/3	940104
4139	FRCC	First Financial Caribbean	2/1	931213
8688	FCLR	First Commercial Cp	3/2	940104
4143	FOBBA	First Oak Brook Bankshares	5/4	931227
8764	GKSRA	G&K Services Inc Cl A	3/2	940105
3234	GSC	Gelman Sciences	3/2	931229
8827	APGI	Green (AP) Ind Inc	3/2	931213
3279	HHH	Helm Resources	1/15	931220
2409	ISLS	Intelligent Surgical	4/10	931108
9002	INVS	Investors Bank	4/3	940103
9064	LDDS	LDDS Communication	2/1	940107
9107	LTEC	Lincoln Telecommunication	2/1	940107
5082	MAT	Mattel Co	5/4	940110
2182	MFIC	Microfluid Int'l Cp	2/1	940111
2628	NONA	Nona Morelli II	1/10	931230
9411	PFKY	Peoples First CP	2/1	940105
9492	PULS	Pulawski S&L	2/1	931229
3005	RXM	RX Medical Service	1/4	931230
2332	SIII	S 3 Inc	2/1	931220
2696	SASZ	Sage Technologies	3/2	931216
3500	SALM	Salem Cp	3/2	940106
9616	SRM	Sensormatic Electronics	3/2	931220
7577	SHX	Shaw Industries	2/1	931223
6948	SGI	Silicon Graphics	2/1	931216
9583	SPBC	St Paul Bancorp Inc	3/2	940105
9685	SPLS	Staples Inc	3/2	931214
4318	SUNT	Sunward Technologies	1/5	940110
2828	UNIF	Uniflex Inc	2/1	931220
9920	WSAU	Wausau Paper Mill	4/3	940110
5454	ZENL	Zenith Labs	3/1	931210

DELETIONS FROM THE STOCK DATA BASE

3003	AOI	AOI Coal CO
4058	ARIT	Aritech Cp
2162	BMRG	BMR Financial Group Inc
3105	CHG	Capital Housing & Mortgage Partners Inc
4427	CSFT	Chipsoft Inc CL A
7082	CZP	Curragh Inc
2290	DATA	Dataimage Inc
8676	FAMF	First Amfed Cp
8796	GMGW	Geraghty & Miller Inc
5399	GSU	Gulf States Utilities CO
3273	HVT	Healthvest SBI
4831	INFB	InterFirst Bancorp Inc
4833	JCFS	Jackson County Federal Bank
4193	KEENQ	Keene Cp
7340	KOG	Koger Properties Inc
9220	MSSB	Mid-State Federal Savings Bank
4245	NEOZ	Neozyme Cp
4754	PFII	Peachtree Fiberoptics Inc