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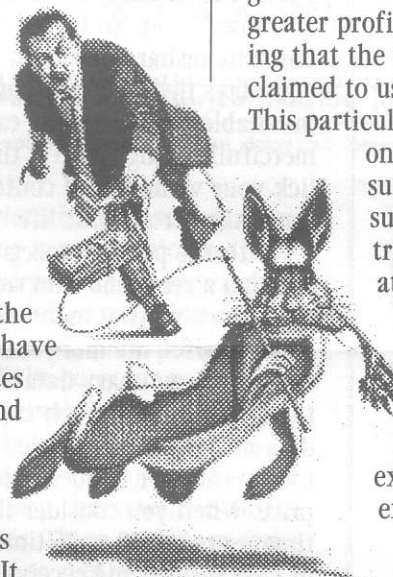
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Real Time Services - Do They Deliver Profits?

You may have seen a recent reference by a Houston S&P 500 trader who claims to make real-time profits, but knows of "no one else who makes money daytrading." I'm still waiting for the other shoe to drop. This story brings to mind a comic strip showing the same group of traders over several successive years. Each year a different speaker announces he's the only one making profits and each year the previous year's speaker is among the rotating crop of losers. I have spent nearly three decades as a trader, researcher and analyst in the futures industry and over the years I have witnessed the successes and failures of a great many traders. It might be important to note that no one stands out in memory as having sustained regular, annual profits from a systematic real-time trading approach. From my experience, it seems that sustained profits through daytrading are usually no more than an expensive pipedream.



Perhaps our sample of daytraders has been atypical and non-representative. I don't know if the winners in real-time trading are statistically more than a small minority. The fact remains that anyone who undertakes daytrading has many obstacles to overcome, including heavy expenses and the markets themselves.

The exchanges impose price limits on most markets which define the maximum daily trading range. While

these limits provide some protection against loss, they also seriously limit the maximum profit potential for any intraday round-trip experience. Position trades that are allowed to grow for several days hold a much greater profit potential. It is interesting that the trader from Houston claimed to use the S&P 500 market.

This particular market is probably the only one that can claim sufficient volatility to support intraday round trips. If one is inclined to attempt daytrading, the S&P 500 may be the only viable opportunity.

Another obstacle faced by the day trader is the excessive expense involved. For example, the cost of engaging a real-time service to track your

short term plays (with history, exchange fees and phone charges) can range upward from several hundred dollars per month. Add this to brokerage costs and slippage, and regular profits become a formidable goal. Unless you own a seat and can demand a commission expense below \$2.00 per trade, it is very unlikely that you can make up for the fixed costs of daytrading.

The scenario of most daytraders goes like this: The trader is lured into the market by low margins, high leverage and the effects of flood, drought, freeze or war that have sparked an unusual rise or fall in prices. A real-time quote vendor provides a plethora of information

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Real Time Services...

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"I know of no shorter route to frayed nerves and domestic disharmony than spending your days tied to a quote machine."

and trading tools to facilitate day trading efforts and a long term service contract is signed. After a couple of months of unexpectedly poor performance, the trader is forced from the market. Any remaining capital will likely be donated to the quote vendor who still demands his fee for the full contract period. This is the final insult to a bruised ego and gutted pocketbook.

The former day trader's consolation prize is the intense relief felt at being out of the trading fast track. I know of no shorter route to frayed nerves and domestic disharmony than spending your days tied to a quote machine. The inevitable loss of trading capital mercifully brings with it the chance to lick your wounds and contemplate the time taken from your life.

With the poor prospects for profit through a real-time data service, it is not surprising that many tick-by-tick services offer the more substantive end-of-day summary data at no additional charge. Although capturing this data brings a much-needed analysis tool to the user, it does so at too high a price. When you consider that real-time users pay 10 to 25 times the cost of CSI's service and receive nothing of real value except end-of-day quotes, the price is unbelievably exorbitant.

If daytrading were so lucrative, everyone would be doing it. How does the day trader mentality stand up against the advice of experts to avoid the short term? Heath McLondon, managing director of Smith Barney was quoted in Investor's Business Daily as saying that short term market timing approaches are almost impossible to implement.

To routinely attain profits in the long run, your market analysis must be based on the analysis of years of data organized in daily, weekly and longer price intervals. The well-researched position trades undertaken with other intermarket references added in will then stand a chance of success. Other-

wise, exchange fees, brokerage costs, slippage, quote services, etc. etc... all add up to a large, bankrupting house advantage against you. ♦

Bob Pelletier

Newsletter Stirs "Stop" Controversy - Differing Views Are Welcome

The December 1994 CTJ included an article called "To Stop or Not To Stop? A Question Every Trader Must Answer." As the name implies, the article discussed the use of protective stops in trading systems. The purpose of this article, like everything written in this journal, was to make our readers think about their actions in the markets and the logic behind their trading approach.

Not surprisingly, there are some who disagree with my line of thinking on this and other topics. It is not possible that everyone would agree on a topic as close to our hearts as our own pocketbooks. I welcome written feedback - whether you agree or disagree. We may print excerpts from your comments from time to time. Here is a sampling of our recent mail.

From Reader Terry Davis of Holy Grail Trading: "I must take extreme exception with your December article on stops in the CSI Technical Journal. Since your business is an industry leader, people (especially novice traders) look to you for direction. If this is the direction you are giving, I would hope your readers would look for a different compass. It is imperative for 99 out of 100 people to use stops at all times. Stops are the lesser of two evils. The greater obviously being losing your account and worse

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Choosing Between Code 46 and Code 51 Perpetual Contract® Data

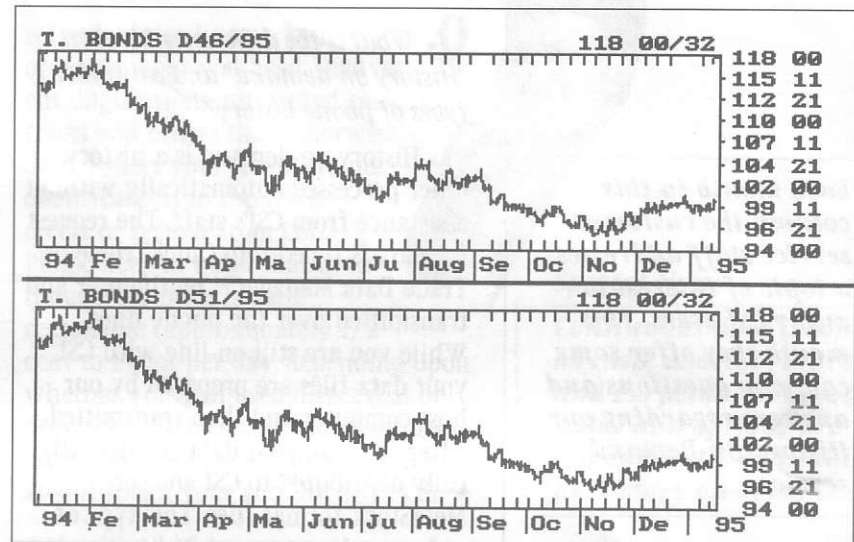
The introduction of Code 51 Perpetual Contract data several months ago has spurred many new questions about our Perpetual Contract series. Several users have asked if we advise using code 51 data over our other Perpetual Contract formulas. I felt this topic was important to address.

First, some definitions: In most cases, the formula used for CSI Perpetual Contract data represents a time-weighted average of two adjacent futures contracts. We focus our attention on a set, constant-forward point in time and interpolate between the two contracts whose expiration dates (or adjusted ending dates) fall adjacent to that point. The result is a smooth, continuous data set for each commodity which closely reflects market trends, but does not give actual market prices.

The distance we look forward, and thus the focal point of the time-weighted average, is selected by the user when a delivery month code is chosen. Our most popular Perpetual Contract series is code 46, which looks forward 90 days and uses an adjusted end date of the tenth day of the expiration month.

The #51 Perpetual Contract series was added to our data base by request. Unlike other Perpetual series, it weights all delivery month prices by their respective open interest. This style of contract tends to focus on the more heavily traded contracts where liquidity is greatest, not our usual constant period forward stationary series. It produces a price series that always emphasizes the more heavily traded contract or contracts.

Our intent in offering the two different approaches was for each to stand on its own as alternative methods for market analysis. The choice of which to use is for the user to decide. The stationary time-weighted series has analytical advantages and the open interest weighted



(Top chart) Time-weighted Perpetual Contract data. (Bottom chart) Open-interest weighted Perpetual Contract data.

series has price visibility advantages. The following is a suggestion on how one might merge the two approaches.

When simulating a trading approach into the past, it is probably best to use one of the constant-period forward Perpetual Contract series such as the code 46 or the code 49. These are preferred for this purpose because of the stationary characteristics of the resulting series. These stationary series might be used to synthesize market behavior and determine parameters and so on in the past. It is probably unnecessary and inappropriate to use the code 51 Perpetual Contract data for this purpose.

The code 51 series, which focuses upon the open interest rather than the time, is appropriately used forward in time on an ongoing basis. It is useful for tracking the market as prices actually unfold in real time. You might consider applying the parameters synthesized with the code 46 Perpetual Contract data to the code 51 series Perpetual Contract data. This way the on-going contract with the greatest open interest is most likely to be priced near the code 51 Perpetual Contract price. Please see the example chart comparing both wave forms. ♦

Historical data on the Code 51 Perpetual Contract purchased before 1/16/95 may contain an occasional error. Please call CSI Customer Service for a free replacement copy.

Ask Customer Service

Each month in this column the customer service staff addresses a topic of interest to many CSI users. This month they offer some common questions and answers regarding our History On-Demand service.

Q. *What is the difference between "History on-demand" and any other types of phone history?*

A. History on-demand is a history order processed automatically without assistance from CSI's staff. The request for data is typed into QuickTrieve or Trade Data Manager™ by the user and transmitted over the phone lines. While you are still on-line with CSI, your data files are prepared by our host computer and then transmitted. After the call, your data is automatically distributed to CSI and/or MetaStock format files. This type of order can be processed 24 hours a day, seven days a week.

An "assisted history" order is one that is prepared for phone retrieval by our customer service staff. These are usually available two or three hours after the order is placed. Assisted history orders can be requested through QuickTrieve's Order Subsystem or by phone, mail or fax. These orders are processed only during CSI's office hours, but are available for retrieval any time during the following week.

Q. *How do I get History On-Demand?*

A. First, you must have QuickTrieve version 4.05 or above or our latest Trade Data Manager. Earlier versions do not support this service.

If you have the proper version of the QuickTrieve software, you should proceed through the Order Subsystem and Order Historical Information menus, requesting all the normal futures contracts, stocks and indices you desire. Upon completing your order, press <Esc> and you will be asked: "Do you want to collect phone history at the time the order is sent," answer (Y)es. This response puts your order in the "On-Demand" mode. A price estimate for the data requested will display. You will be billed for this amount, or, if you still have free

months of history on our system, the quantity of data months shown will be deducted from the total available.

You can 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 Tutorial at the beginning of the manual for further details on using the Order Subsystem.

Trade Data Manager (for the Macintosh) now processes all on-line history orders as on-demand history, unless they are requested on diskette.

Q. *I got a larger bill than expected for the history I requested through the Order Subsystem. What can I do to keep my costs down?*

A. Here are some tips on using the Order Subsystem economically:

1) Fill in the "Start Date" for each file requested. Leaving this entry as all 9s will result in the receipt of data from the first day on file. Ask yourself if you really need a contract for its full life (up to 60 mos.). If not, enter a start date that more closely meets your needs.

2) Remember that any history on-demand request is charged at a minimum three-month rate. For example, if you order the March '95 T-Bond contract from 950101 through 950201, you will receive one month of data but will be charged for three. You'll get more value for your money if you order three months or more.

3) Use our Test Files, not history on-demand to verify the functionality, compatibility or format of CSI data. It would be a waste of your free data or your money to download history that won't work for your purposes. To

access our test files, change your User ID to TES, then collect history data and daily updates as needed. There is no charge for collecting Test Files beyond the cost of your direct-dial phone call.

4) Start small. If you want to test a new trading system that requires a great deal of history, order what you need for testing with ONE commodity. If results are promising or inconclusive, add another. The point is, don't run up a large bill for a massive data base that you may never use.

5) Use the Order Subsystem responsibly. The cost of historical data is not

refundable, so be sure you are ordering what you need. Inadvertent duplications, unwanted contracts and orders that otherwise do not meet your needs are not qualifications to receive a credit or refund from CSI. Please keep in mind that even though the price is quite reasonable (approximately 1/2 cent to 1 cent per day, depending upon whether you will use direct dial or network), charges can mount up. You are responsible for all charges generated through your account with CSI. ♦



Special Note:

Continuous data (such as cash, nearest future and Perpetual Contract data) and options are not currently available as History on-demand.



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) 392-7761

- QuickTrieve®/QuickManager®** for PC - To retrieve, manage & edit data (includes 1995 Alerts Calendar); New daily user \$59. QuickTrieve/QuickManager version 4.06 upgrade (for current QuickTrieve users only): \$39; demo disk \$5
- 1995 Commodity Alerts Calendar** for use with QuickTrieve \$20; Calendar upgrade for current QT 4.06 users \$10
- QuickPlot®/QuickStudy®** for PC - Charting & analysis software (requires QT/QM) \$89
- 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 \$149
- Trader's Money Manager™** for PC - \$399 (includes TSPE); Demo disk: \$15
- TraDesk™** for PC - Traders' complete accounting system - CSI daily user \$149; Unrestricted use \$299; 30-day trial version \$22
- Seasonal Index Value Pack** for PC - Ten years of history for 33 popular commodities \$315
- Daily Updates** for PC - Starting at \$10.80 per month
- CSI Technical Journal** - Aug. '90 to present \$35/Yr. - \$5/Reprint
- CSI Mailing List** - \$200/1,000 names (CSI users omitted)
- CSI Product Catalog** - *FREE*

Please add \$29 per software package for overseas shipping.

NAME _____

ADDRESS _____

DAY PHONE (____) _____

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

DISCOVER AMERICAN EXPRESS

AMOUNT ENCLOSED \$ _____

CARD # _____

EXP. DATE _____

SIGNATURE _____

2/95

All prices subject to change without notice.

Market Statistics Update

1995 Commodity Alerts Calendar Now Available

The 1995 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. Users of QuickTrieve version 4.06 may purchase the calendar disk at a discounted price of \$10.00.

Please see the Product Summary on page 5 for ordering information. To order by credit card, call CSI marketing at (800) 274-4727 or (407) 392-8663. ♦

Newsletter Stirs...

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yet, going into deficit..."

From Reader Ralph Vince of First October Trading Co.: "...I have always made it a point to read everything you write. Perhaps it is your engineering background, but I find you always get beneath the surface and offer an interesting, yet very logical explanation of whatever subject you are writing about. Your recent article "To Stop or Not To Stop?" I found most interesting, particularly since this is something we are wrestling with right now in our shop. You have given me enough to think about for all of 1995!"

Mr. Vince went on to say that he recently recommended CSI because the service is, "reliable, reasonable and easy to use - everything you could ask for". He added "...I use CSI - because it has a monthly newsletter with articles by Bob Pelletier in it and that alone is more than worth the price. The data, in effect, is free."

Mr. Vince did not agree or disagree with the points made in our "Stop" article, but found it food for thought. This is the spirit in which all our articles are written, and the spirit in which we hope they will be taken.

Editors note:

Ralph Vince is the author of two innovative, insightful books on trading which are: *The Mathematics of Money Management: Risk Analysis Techniques for Traders, 1992*; and *Portfolio Management Formulas: Mathematical Trading Methods for the Futures, Options, and Stock Markets, 1990*. Both books are published by John Wiley & Sons. ♦

DELETIONS FROM THE STOCK DATA BASE

8066	APTV	Advanced Promotion Technologies Inc
5589	ALI	Allerion Inc
2218	AAMC	American Asset Management Cp
3024	AHH	Amerihealth Inc
4812	AMBS	Amity Bankshares Inc
8171	ACTYF	Applied Carbon Technology Inc
3045	RK	Ark Restaurants Cp
6946	ACCOMA	Associated Communications Cp CL A
5226	NGA	Associated Natural Gas Cp
8132	ACCMB	Associated Communications Cp CL B
8169	BBGS	Babbage's Inc
1005	BWS	Beta Well Service Inc
2039	BSRF	Biosurface Technology Inc
8675	CRNT	Carenetwork Inc
3114	CLU	Clark USA Inc
8248	CODEC	Coded Communications Cp
2254	CSAV	Continental Savings of America
7174	EP	Enserch Exploration Partners Ltd Dep. Receipts
9996	GENZW	Genzyme Cp WT
2381	FUEL	Griffith Consumers Co
1056	HLY	Holly Residential Properties Inc
7304	IT	Intelogic Trace Inc
9029	SPLKA	Jones Spacelink Ltd CL A
3327	KTM	Ketema Inc WI
9083	LASR	Laser Precision Cp
4769	MVIQC	Media Vision Technology Inc
6952	MDST	Medstat Group Inc
7428	NEI	National Enterprises Inc
3412	NCD	North Canadian Oils Ltd
9263	NYCLE	Nycal Cp
7463	OPI	Ogden Projects Inc
9367	OPTOQ	Opto Mechanik Inc
9374	OMET	Orthomet Inc
8236	PPGE	Premiere Page Inc
7527	RGL	Regal Int'l Inc
9446	RELIF	Relife Inc
3501	SAM	Samson Energy Co L.P.
4565	SKNSE	Skolniks Inc
4851	SNPL	Snapple Beverage Cp
4474	SFWR	Software Etc. Stores Inc
2992	SRCC	Soricon Cp
9787	TRCO	Trico Products Cp
9803	UNSL	UNSL Financial Cp
9927	WCBC	West Coast Bancorp (CA)
2267	WFCI	Winston Furniture Co
5454	ZENL	Zenith Laboratories Inc

ADDITIONS TO THE STOCK DATA BASE

1894	LNTVV	LNTV Lin Television Cp	OTC	941219
1328	BPR	WesternBank Puerto Rico	OTC	941208

ADDITIONS TO THE COMMODITY DATA BASE

Commodity:	Rolling Spot Yen		
CSI commodity #:	86	Symbol:	RY
Exchange:	CME		
Unit of measure:	JY/\$	Contract size:	\$250,000
Delivery months:	3,6,9,12		
1st day on file:	950117	CSI point value:	JY25.00
Conversion factor:	+4	Newspaper/CSI price:	1.0048:10048
Limit (price):	None Max months forward: 3		
Commodity:	FIB 30 Stock Index		
CSI commodity #:	359	Symbol:	IFX
Exchange:	MIF (Italy)		
Unit of measure:	Points	Contract size:	ITL100 X Index
Delivery months:	3,6,9,12		
1st day on file:	941130	CSI point value:	ITL100
Conversion factor:	+0	Newspaper/CSI price:	15275:15275
Limit (price):	None Max months forward: 12		