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## The Fundamental Value of Seasonal Data

We have been working on several market analysis algorithms in preparing for the impending release of Unfair Advantage<sup>®</sup> software. One of the algorithms is an original technique for dealing with market seasonality. We thought it might be helpful if we explained how this tool can be of value when trading markets that are affected by calendar events.

### Defining Seasonal Markets

Before starting, let's discuss just what is meant by seasonality. Seasonal markets are those which are influenced by events timed either figuratively or literally by the calendar. The four seasons, annual weather patterns, the influence of Christmas on commerce, tax day, elections, or anything that occurs at a particular time of the year can be a seasonal force. These forces, working alone or in conjunction with others, may change or amplify a given market's price and direction.

Some examples of seasonal markets are: agricultural products, which are affected by the growing season; securities which are influenced by retail sales; and energy products such as crude oil, where demand is affected by the presence or absence of cold weather.

### The Form & Nature of the Input

Our new seasonal index algorithm is based upon historical price data for the subject market in the user's choice of cash, actual, back adjusted, Perpetual

Contract,<sup>®</sup> nearest future, Gann, or open-interest weighted contract data. The index is developed cumulatively. In other words, the index shown on a given date is based only on data known to have taken place prior to the given date. This avoids the

problem of overlaying a seasonal index that might be based on thirty years of data over any period of the historical input. This prevents traders from making the erroneous and tempting conclusion that such a tool might have been used to predict prices for the thirty year input period.



### How the Index is Constructed

A cumulative seasonal index does not assume that the past could have been predicted. It addresses only the future. By using this approach, one can see whether the index has predictive value. Since the index can be viewed in dampened or amplified form, the user can readily see whether particular markets are devoid of seasonal forces. Such markets cannot be analyzed based upon calendar events.

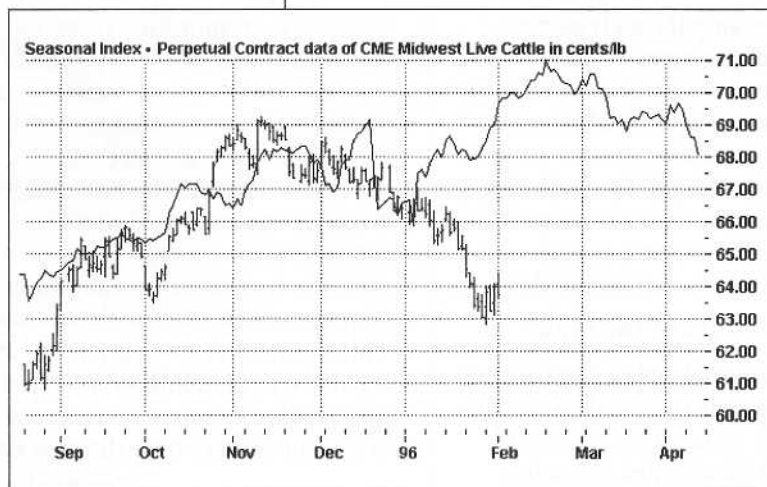
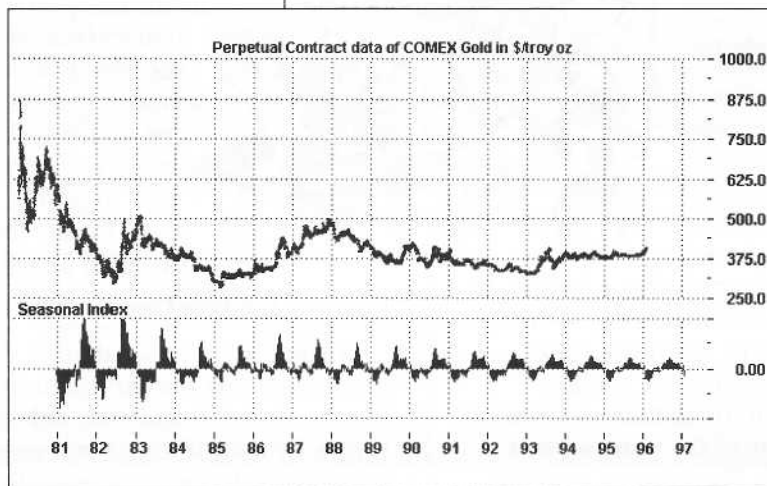
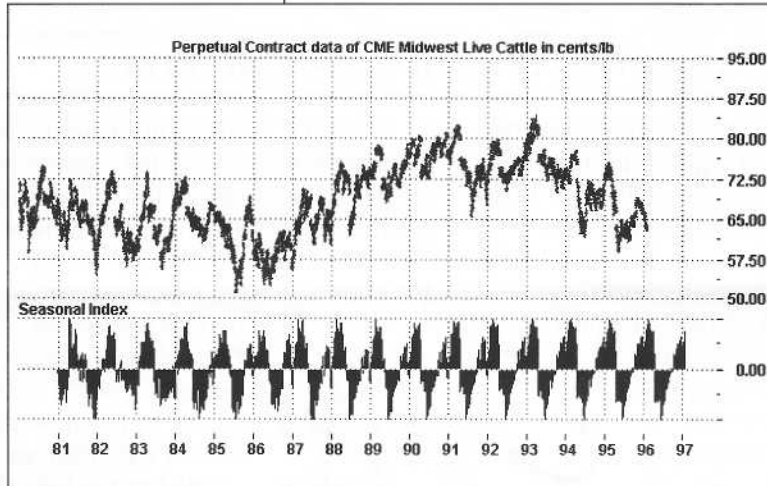
Those authors who have suggested constructing seasonal index data have typically used average prices on a monthly basis to construct percentage changes which form their indexes. This means that you may focus only upon the next month of averaged information to measure the seasonal effects of market data through today.

*(continued on Page 2)*

## The Fundamental Value ...

(continued from page 1)

Such an approach is extremely coarse and does not blend well with daily trading decisions. Unfair Advantage's



seasonal index uses daily data, allowing each index for each day of the year to stand on its own. No adjacent-day smoothing influences are introduced. With Unfair Advantage's indexing method, the most recent day of a 30-year time series contributes, perhaps, one/7,500th of influence on the total seasonal indicator. Each daily input fine-tunes the indicator by a tiny fraction, making it slightly more accurate with each new day.

### Interpreting the Output

Here are three charts produced by Unfair Advantage using Perpetual Contract data. The first two graphically illustrate the seasonal forces for live cattle and gold. The live cattle market, shown in amplified form, is considered highly seasonal because it is affected by the growing season and the availability of corn and other raw food products used to feed the cattle. We ran gold in dampened form because we expected random seasonal effects. But even gold exhibits some seasonal tendencies under our system with regular drops in the winter of each year and regular advances in the fall.

Live Cattle's seasonality is evidenced by the seasonal pattern which becomes more and more uniquely defined as additional data is introduced. This pattern may suggest that the given market will give important helpful fundamental information that can be used to your advantage when making your trading decisions. When derived from appropriate markets that are affected by seasonal forces, the seasonal index can serve as the fundamental support required to confirm an otherwise derived technical indication.

By contrast, the gold chart shows less of a discernable seasonal pattern, but there is a definite pattern nevertheless. Please note that the seasonal index for gold is progressively dampened as more history is introduced.

(continued on Page 6)

## Ask Customer Service

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*Each month in this column we discuss a topic of interest to many CSI subscribers. This month, the regrettable situation of many CSI-compatible software programs being unable to process our S&P 500 data is addressed.*

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### **Please Help Us Keep in Touch**

Ask your software developer to register with CSI so we can notify them of changes/upgrades in current products and announcements of new products. Thank you.

*Please see our Internet Home Page for updates on compatible software programs regarding support of larger numbers. Our Internet address is <http://www.gate.net/~csi>*

**Q.** *Since the week of February 5th, my S&P 500 data has been incorrect. What is going on and when will it be corrected?*

**A.** The problem with your S&P 500 analysis is not in the data we are transmitting, but in the way it is being processed by your software. All users of QuickTrieve version 4.05 or higher can receive data at the lofty levels recently reached by the S&P 500 and other indices. However, users of previous versions of QuickTrieve will find the data distorted to numbers around the 2.00 level. If you are using an older QuickTrieve and store data in the QuickTrieve (not Metastock) format, we urge you to order an upgrade to resolve the S&P 500 problem.

**Q.** *I use QuickTrieve version 4.06 and my S&P 500 data is still wrong. Please explain.*

**A.** If you view the actual numbers stored by QuickTrieve or plot the data with QuickPlot,<sup>®</sup> you'll find the correct S&P values. The problem most likely lies in the software you are using for analysis. Any software written prior to June 1993 or using that era's format will be unable to properly handle the larger numbers.

**Q.** *What caused the S&P 500 futures data to be processed incorrectly?*

**A.** The original CSI "QuickTrieve" format was developed in the 1970s to deal with commodity data. At that time, the format allowed for a maximum price value of 65535. It seemed unfathomable then that prices would grow to their current levels. As prices soared through the early '90s, it became clear that support for higher prices would be needed. In response, we changed the CSI "QuickTrieve" format to accommodate numbers up to 99999 with version 4.05. This software was released in November, 1993.

**Q.** *Why didn't you inform people of the format change?*

**A.** We tried! In June, 1993 we sent personalized memos entitled "IMPORTANT NOTICE ABOUT CHANGE IN THE CSI FORMAT" along with the format itself to all 40 known CSI-compatible software vendors. The June 1993 CSI Technical Journal devoted an article to the format change and included a request for un-notified compatible software vendors to contact us for details. Unfortunately, many of those who received the notice did not heed our warning about indices breaking the 65535 threshold. Other compatible developers who were not in touch with us were never notified. If your software is not processing S&P 500 data correctly, we suggest you ask the maker for a revision. Specifications of the CSI "QuickTrieve" format are on our home page on the internet and will be sent to software developers upon request.

**Q.** *The makers of my analysis program are out of business, so I can't get a fix from them. Is there any other way to read the larger S&P 500 values?*

**A.** Perhaps. If your program can read the CompuTrac (MetaStock) format, use QuickTrieve to convert to the S&P data to Metastock format. If that isn't possible, consider switching your S&P 500 futures to CSI #449 or index to #5736. These are the S&P 500 divided by ten. The result is a truncated series that drops the least significant digit (a zero or a five). These may work with your existing software, but will lack total accuracy. The average error is a 25 point understatement (\$1250).

**Q.** *How do I start receiving the truncated S&P 500 data?*

**A.** First, use the Editor Subsystem to add it to your Commodity Constants. The specifications are on page 5. Then use the Order Subsystem to add #449

or #5736 to your portfolio. Free history is available for a selection of futures, Perpetual Contract series, nearest futures and cash prices going back six years. To retrieve the free history, change your User ID to TES and use C) Collect History Data from the main menu. Please select the appropriate file numbers from those specified. ►

After data retrieval, proceed through distribution and then change your User ID back to normal. Additional historical data may be ordered using your own User ID and will be

charged at our normal rates. ◆

3/93 - 12/96 futures with total volume and open interest: files 02-17  
 3/93 - 12/96 futures with contract volume and open interest: files 18-33  
 Cash prices (code 54) 900102 - 960209: file 42  
 Nearest Future (code 55) 900102 - 960209: file 44  
 Nearest Future (code 56) 900102 - 960209: file 46  
 Perpetual Contract (code 46) 900102 - 960209: file 48  
 Perpetual Contract (code 39) 900102 - 960209: file 50  
 Perpetual Contract (code 49) 900102 - 960209: file 52  
 5736 SPXZ 90102 - 960213: file 61

Commodity: S&P 500 truncated  
 CSI commodity #: 449 Symbol: SP0 (third digit is zero)  
 CSI point value: \$50.00/pt  
 Conversion factor: +1 Trading months: 3,6,9,12  
 Newspaper/CSI price: 655.35:655.3  
 Stock index S&P 500 truncated: # 5736 SPXZ

**A Reminder:**

Customer Service hours are 8:30 a.m. to 10 p.m. (eastern time) Monday - Friday. Please dial (407) 392-8663 for technical support. Thank you!



**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; E-Mail: COMMSYS@AOL.COM

- QuickTrieve®/QuickManager®** for PC - To retrieve, manage & edit data (includes 1996 Alerts Calendar); New daily user \$59. QuickTrieve/QuickManager version 4.06 upgrade (for current QuickTrieve users only): \$39; shareware demo disk \$5
- 1996 Commodity Alerts Calendar** for use with QuickTrieve \$25 (allow three weeks for delivery)
- 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 Subscription** - \$24/Yr. - Reprints \$5/each Issues requested: \_\_\_\_\_
- CSI Mailing List** - \$200/1,000 names (CSI users omitted)
- CSI Data Retrieval Service Information Package** - *FREE*
- Hardcopy Commodity Fact Sheets** (includes options) \$4; **Stock Fact Sheets** \$6. Visit our Internet Home Page for free on-line copies: <http://www.gate.net/~csi>

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 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 # \_\_\_\_\_  
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3/96

Please add \$34 per software package for overseas shipping.  
 All prices subject to change without notice.