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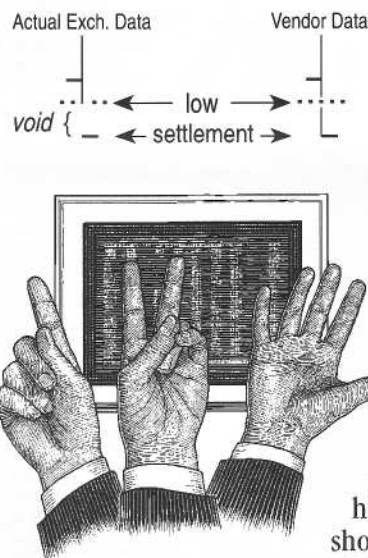
We have enclosed advertisements for "Systems USA" developed by London Financial, Inc. and for "The Cycle Projection Oscillator" offered by John Rawlins.

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Out-of-Range Settlement Prices - Our Answer to an Overlooked Problem

The process of building a trading system involves not only proposing a credible method for measuring market movement, but also accurately interpreting historical market information. Your successful simulated trading technique may not operate as expected in the markets if your data resources do not accurately express the market's behavior.



A basic flaw of many analysis systems which has been perpetuated by most data vendors is the assumption that the settlement price of a commodity is equivalent to the market's final closing price. In reality, the settlement price may represent a price outside the high-low range. You cannot buy or sell at the settlement price because the settlement price is determined after the market has closed.

Unlike security closing prices, the settlement price in the futures arena is the price exchanges use to compute daily gains and losses for open positions. Each day, following the final bell, an exchange settlement committee meets to establish the settlement price. They focus on the time and price of the last trade, the last bid and ask, and pricing information on more active nearby delivery months. Very often, the last consummated price is used for the settlement. However, if

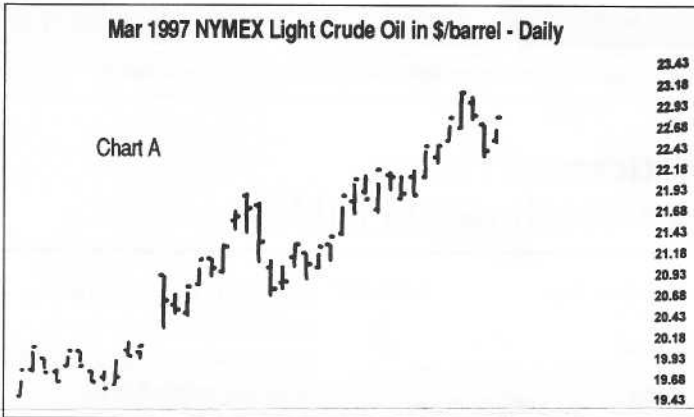
trading is not continuous and the last trade for a given contract is not time-wise correlated with nearer delivery months, more discretion is introduced. The resulting judgment can be a settlement that lies outside the high-low range. It can be a value where no trading occurred. This can lead to confusion among traders and analysts as to how the true high, low and settlement should be represented.

CSI, in our QuickTrieve® update service, and all of the eight competitive data vendors we surveyed handle the dilemma this way: If the settlement price is above the high, the high is adjusted upwards to match the settlement. If the settlement is below the low, the low is adjusted downwards to match the settlement. The result is an open-high-low-settlement data set that may include a range of prices where no trading occurred. This is a convention we adopted in the 1970s to accommodate analysis program vendors of the day who believed compromising actual market conditions would simplify basic efforts to write analysis software. Then, as now, most charting programs required that the close be within the trading range. This convention was accepted as the industry norm.

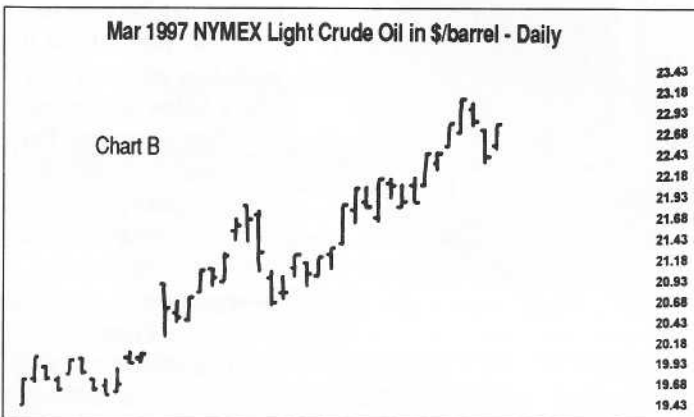
Even sophisticated analysts could easily overlook the fact that the high, low and settlement information

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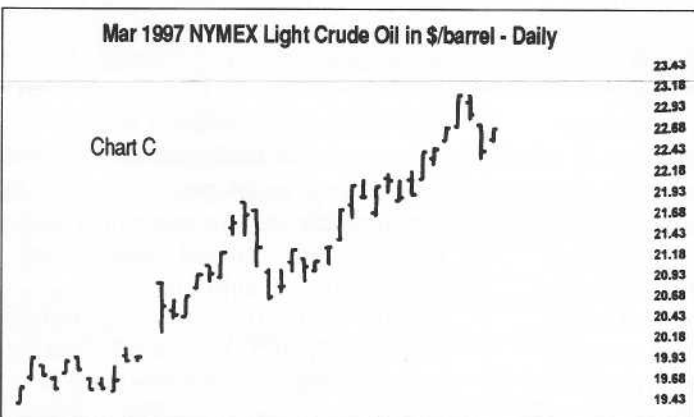
Out-of-Range ...
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CSI's raw, unadjusted exchange data - The true high-low range and the settlement price are shown. Note that voids may exist between the high-low bars and settlement prices.



The current norm (possibly adjusted highs or lows) - Note that the voids in chart A were filled by extending the high-low bar to accommodate the outlier settlement prices whenever the settlement was positioned outside the high-low range.



Adjusted settlements - The settlement may be adjusted to match the closest point in the high-low range where trading could have actually occurred.

downloaded from your favorite data vendor may not fully reveal the market's past statistical experience. Traders should be aware that in the commodity markets, the given high and low may reflect adjustments made to accommodate decades-old charting techniques.

We took a look at New York Mercantile energy markets to see how often the settlement price occurred outside the high-low trading range. Our analysis showed that at NYMEX, about half the time, data for contracts trading earlier than three calendar months before the delivery month were affected. The price discrepancy in the daily trading range reported by data vendors was significantly different from exchange captured data. These more distant delivery months can represent about 10% or more of the total contract volume recorded. This suggests that at least 5% of the time a trader following these markets will be examining adjusted statistics. Out-of-range settlements are more common at NYMEX and mercantile markets than at most other markets, but any commodity involved in the settlement mechanism can be affected.

If your system requires entering or exiting the market at the closing price and you used the settlement price as a proxy, then your results may be flawed. Similarly, if your system buys or sells at some projected price within the high-low range, you may be focusing upon a price that lies outside the actual trading range where no fill can be attained. Simulated profit calculations could include transactions where no trading could have occurred, such as at the settlement. A failure to understand these points could cast doubt on your efforts to explore market behavior in search of a workable trading procedure.

Fortunately, in CSI's basic data archives, we have saved the true high, low and settlement prices released by the exchange for every contract in our data base. With the launching of our new Unfair Advantage® software, we can now release futures market data in any one of three basic forms to accommodate the purist who demands the ultimate in accuracy for this market analysis, synthesis and simulation. An interesting observation on competitive data services (and where CSI deviates from the norm) is that every one of the eight competing data firms who accepted our call reported they could not recover the original true data. They are unable to reveal the true high-low

How to Avoid Paying Referral Fees

trading range because neither they nor their suppliers have saved the original information.

See the charts on page 2 showing three ways data might be presented when the settlement lies outside the trading range. With the click of a mouse, users of Unfair Advantage can express data in 'Chart A,' 'Chart B,' or 'Chart C' form, depending upon the conditions and objectives of their research.

To state it another way, Chart A represents the official exchange situation which actually occurred. Chart B is a compromise that may render invalid either the high or the low. Chart C produces an accurate high and low, but suggests a modified closing price that cannot be used for accounting or realistic value assessments on a given commodity at the end of the day.

Charts A, B and C represent a NYMEX crude oil contract that is about three months to expiration. Taking positions this distant from expiration would be a fairly typical scenario for the risk-adverse speculator. It would give such a trader sufficient time for his short term trading algorithm to develop into a profitable posture before facing eventual contract termination.

Chart A's improved method of reporting high, low and settlement prices represents a real breakthrough in accurately interpreting historical market information. This type of charting eliminates the common flaw of assuming that the settlement price of a commodity is equivalent to the market's final closing price. It also avoids the common practice of corrupting the high-low range to accommodate an out-of range settlement. Your successful simulated trading technique, operating on data resources which more accurately express the market's behavior will likely perform better in actual trading. ♦

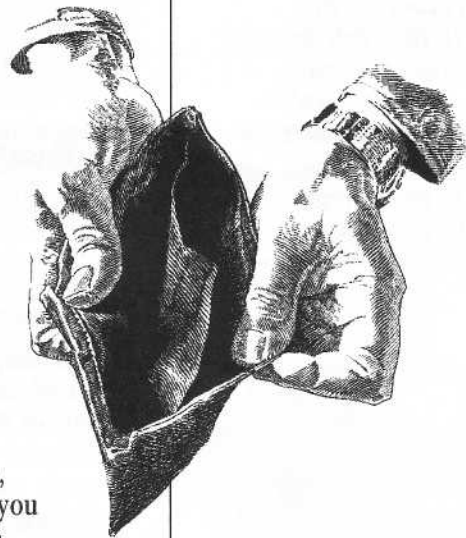
Bob Pelletier

Data seems to be more affordable these days, but most traders who do not engage CSI pay nearly double the going rate for their data services.

Popular trading and market study software is typically equipped by mainstream developers with either a "preferred" data vendor disk included in the study software package or an attribution link to the preferred data vendor from your main computer screen. By clicking on the computer screen attribution or installing that data vendor disk, you will be taken directly to the preferred data vendor's computer doorstep where you can supply your credit card and instantly sign up.

When clicking that icon, the likelihood is high that you will unknowingly open the floodgates to begin a flow of money (*your money*) in the form of monthly kickbacks to the very study software provider you just paid for his system. How much? Perhaps half of the data fees you are obliged to pay the data firm go right back to the study software provider. And this free annuity to the study software provider will go on for as many years as you remain a customer of the data vendor.

Fortunately, there is an alternative to paying those heavy fees to the study software provider you thought you had paid in full. You can simply engage a data firm that pays minimal royalties or none at all and pocket the difference. CSI's Unfair Advantage software might be a viable alternative to obtain not only low cost data resources but uncompromised data as well. ♦



Ask Customer Service

Each month in this column our Customer Service representatives discuss topics of importance to many CSI subscribers. This month they tell how to accommodate the Chicago Mercantile's conversion from Live Hogs to Lean Hogs, how best to track cash bonds, and options.

Q. *What has happened to my CME Live Hog data (CSI #4)? The far-out contracts are priced much higher than the near months.*

A. The higher prices reflect the new product now being traded in the Hog pit. Beginning with the February 1997 contract, the tradable is the CME Lean Hog Index.TM It is a two-day, three area weighted average price per pound. The contract is cash settled to 40,000 pounds of lean value (carcass basis) hogs. These "Lean Hog" contracts sell at about a 20 cent premium over the "Live Hog" contracts.

Q. *How does the new lean hog basis affect my Perpetual Contract[®] data?*

A. Our Perpetual Contract series normally reflect a time-weighted average of the prices of two contracts of the same commodity. In this case, however, the contiguous contracts are for different commodities (live versus dead hogs). Following our standard procedures, the Perpetual Contract data would blend a near contract (Live Hogs) and the next farther out contract (Lean Hogs). The 20 cent price difference mentioned above would cause distortions in this market for approximately 43 days until the Live Hog contracts are out of the window used for your Perpetual Contract calculations. The exact dates this distortion would occur in your data depends on how far forward you follow the market (determined by your Perpetual Contract delivery month code). For most Perpetual Contract users, the '96 Live hog contracts are out of the calculations or very nearly so.

Q. *Have you done anything to eliminate the distortions in Perpetual Contract data?*

A. Yes. The CME has indicated that historical price data can be adjusted to the new specification by using 0.74 as a divisor. CSI has begun calculating

Perpetual Contract data after converting the December 1996 Live Hogs contract using the 0.74 divisor. Historical data applying this conversion to all expired contracts is now available through the order subsystem or by contacting customer service.

Q. *Are you using the 0.74 divisor on open contracts and nearest future series for Live Hogs with expiration dates in 1996?*

A. Not at this point. We recognize that traders with positions in these contracts need accurate, undistorted pricing information right up to the last trading day. We will be making the adjustments to our history on these files after they expire, however.

Q. *What should I do with my current Live Hog data base if I replace it with adjusted data?*

A. If you decide to buy new historical data which reflects the 0.74 divisor for Hogs, you may want to first archive your old Live Hog files to a floppy disk or inactive directory. Use QuickManager's[®] Copy/Split data file feature for this. After copying the files and before ordering the new data, delete all Live Hog files from your active QuickTrieve directories.

Q. *Do I need to make any changes to my software to accommodate the new Lean Hog series?*

A. You should change QuickTrieve's Commodity Constants to reflect the new contract before ordering any new Hog data. Here's how:

From the QuickManager menu:
Select (E) Enter Editor Subsystem
Select (C) Edit Commodity Constants
Cursor down to 0004 Live Hogs and press <Enter>

For Name, enter: CME Lean Hog Index
Press <Enter> for all other entries
Press <Esc> to exit the editor.

Q. *Must I make this change?*

A. The CME hog data will continue to update your #4 Live Hog files and new files that are created will be called Live Hogs until you make this change. The change isn't required for data retrieval, but it is recommended to avoid confusion now and in the future.

Q. *I am interested in the cash bond market. Does CSI offer a cash price for the U.S. 30-year treasury bond?*

A. The cash bond prices are available as code 54 for commodity 44, but this series does not lend itself to simple graphic analysis. Due to quarterly maturity changes and possible changes in coupon and interest rates, most technical analysis procedures do not produce meaningful results with this information.

A better way to study the long bond is to track its yield, which shows the inverse of bond movement, taking changes in maturity and interest rate in stride. Bond, note and bill yields are available as CBOE Interest Rate Instruments, which can be ordered as follows:

Name	Symbol	Stock#
30 Yr. Yield	TYX	3996
10 Yr. Yield	TNX	3997
5 Yr. Yield	FVX	3998
13 wk. Yield	IRX	3999

Q. *What is included in the option data I download with QuickTrieve?*

A. CSI currently offers data on futures options and stock index options. We provide the daily high, low, settlement, volume and open interest for all of these. The content of the open field varies depending on how the data was received. When you receive an option history file, the open field holds the bid at the close. Option data received as daily updates has, in the open field, the average of the high and low for the day.

Q. *Does CSI offer Put/Call volume information for options?*

A. Yes. We offer a data set which includes the call volume, the call open interest, the put volume and the put open interest (in that order) for each futures or index option series. To order, use the commodity or stock number of the underlying tradable. Use December for the delivery month, 9999 for the strike price and request a put option. The resulting data file will be identified as a December, 9999 put.

Please note that the call and put information is limited to four digits plus up to two preceding scaler digits. This means that if the actual volume is 9999 or less, then the value can be taken as is. If the actual volume were larger, it would be scaled. For example, 30999 would be received as 13099. This includes a scaler digit of 1, indicating that the one least significant digit has been dropped. CSI's QuickStudy® software can accommodate such data in its call/put ratio study. We recommend purchasing this data for high-volume markets only if your analysis software can deal with the scaler digit(s) properly. ♦



Market Statistics Update

ADDITION TO THE COMMODITY DATA BASE

Commodity: Butter Grade AA
CSI commodity #: 428 Symbol: BW
Exchange: CSCE (NY Coffee, Cocoa, Sugar)
Unit of measure: cents/pound Contract size: 10,000 Lbs.
Delivery months: 2, 4, 6, 8, 10, 12
1st day on file: 961015
Conversion factor: +2
CSI point value: \$1.00 Newspaper/CSI price: 90.70/9070
Limit (price): None Max months forward: 12

DELETIONS FROM THE STOCK DATA BASE

4386	AFCPX	A&P Large-Cap. Value Fund
1691	ALLG	Allegiance Banc Cp
6958	APBI	Applied Bioscience Int'l Inc
1080	TCC	AT&T Capital Cp
2037	BAIB	Bailey Cp
14592	BEHMX	Beacon Hill Mutual Fund
2175	BODYE	Bio-Dyne Cp
4369	BIOSQ	Biosys Inc
8204	BTRE	Brooktree Cp
1620	RARE	Bugaboo Creek Steak House Inc
15822	BWAI	Builders Warehouse Association Inc
3100	CPP	Calprop Cp
1286	CTA	Castech Aluminum Group Inc

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