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Let History be Your Guide to the Future

Here in Boca Raton, Florida we like to retell our city's history. It starts as a pirate's cove with a rat's mouth of a harbor, matures to become Addison Mizner's Mediterranean-style Venice of the South, emerges as a technology center where IBM gave birth to its Boca brainchild, the Personal Computer, and is now a growing multifaceted commercial center. Retelling our brief, and sometimes illustrious history gives us a sense of community. Most of the city's inhabitants are transplants with their roots firmly planted somewhere North of the Mason-Dixon line. Knowing what has transpired here before us gives us each our own personal vision of where we fit into the community. From this vantage point, we can better track our joint course for the future.



Like members of any diverse community, we commodity traders can benefit from a backward glance at the history of the markets we share. Whether trading is a vocation or an avocation for you, having an understanding of when the markets were formed and whom they served may help you visualize where they will go and where they may take you. To that end, we present a brief history of the futures industry.

One of the oldest commodity exchanges in the U.S. is the Chicago Board of Trade (CBT), which was organized in April 1848 as the Board of Trade of the City of Chicago. Then-President Thomas Dyer presided over the 26 directors and 84 members who

were appointed and approved in that inaugural year. The CBT would have enjoyed a worldwide monopoly in the futures business world at that time, were it not for the popular London commodity exchange. Other U.S. exchanges that were formed later included the Minneapolis Grain Exchange and the Kansas City Board of Trade.

A snapshot in time showed commodity grain markets to exist for these cities in 1899: New York, Baltimore, St. Louis, Toledo, Duluth, Detroit and Minneapolis (all grain markets for future delivery). At that time, there were big cash markets for

flour, which was packaged in barrels and bags (with discounts for bags), but flour was not sold as futures because it was perishable.

Futures markets on perishable commodities such as eggs, potatoes and mess pork have fared poorly at the various exchanges which have offered them in the past. This is likely true because those commodities that can be stored are best suited for futures trading. Pork bellies became a successful futures contract, despite being perishable, by virtue of being frozen. Of course even that arrangement had its shortcomings. For instance, freezer burn is considered a discountable contract flaw in frozen pork bellies.

An interest in international markets and worldwide trading seems to have existed as far back as the late

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Let History...

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Over the years, the quantity of both commodities and stocks available for trade has steadily increased, with commodities standing now at an all-time high of over 600 which CSI tracks daily.

1800s when the "Markets by Telegraph" column of the Daily Trade Bulletin published in Chicago listed trades from London, Amsterdam, Antwerp and Paris. The Chicago newspaper also reported trades for two or, at most, three delivery months forward for each commodity. All grains were traded in March, May, July, September and December contracts, just as they are today. CSI's records show that on March 18, 1899, the Board of Trade actively traded wheat, corn, oats, mess pork, lard and short rib sides. The price of wheat on that date was 67 and one-half cents per bushel for May 1899 delivery. Wheat in London on that day was reported at 74 and 1/2 cents per bushel. Mess pork, which is lean enough, but probably not too lean, for mess (to eat) was bid at \$9.00 per ton on that day at the CBT.

To give you a flavor of the commerce of the day, on Saturday March 25th, 1899, the New York Stock Exchange reported trading on only about 45 securities. These included the usual railroad stock prices and a few commercial interests such as General Electric, American Sugar, American Tobacco, Consolidated Gas, Tennessee Coal, U.S. Leather, and Federal Steel. Volume on the New York Stock Exchange was 3,834,000 shares for the preceding six-day week — an average of about 750,000 shares per day. GE traded 13,400 shares of that total for that full week period. The Dow Jones Industrial Average was computed in those days, but it was comprised of mostly railroad stocks. As a consumer business, the only stock that has survived in tact through today is the General Electric Company.

Before the milestone of the opening of the CBT, there was (and still is) the cash market. Major cash markets existed wherever there was a distribution point such as a seaport or river port where products could be laid off, picked up and auctioned for distribu-

tion to other ports. Transactions in all markets were made daily in the typical six- business-day week, but the day of greatest activity was usually Saturday.

In London there were also major markets for commodities, but the British were the first to offer a futures market in metals. The London Metal Exchange (LME), however dealt with forward markets, as opposed to the U.S. style futures markets. Typically a forward market was one where each day a transaction could be made in a fixed period forward of 3-months, 6-months or one-year just like CSI's Perpetual Contract® Data. The LME traded (and still trades) forward supplies of copper wire bars or cathodes and other metals as contracts for purchase or sale. Every forward contract traded does not turn into an actual product until the end of the specified forward period, as is the case with U.S. futures contracts. Evening up (paying the difference between the actual price and the margin) does not occur until the end of the forward period. The London forward metal markets also include: nickel, lead, zinc, tin, and silver. London had other futures markets in agricultural products that traded in much the same fashion as U.S. futures markets where every product had a specific expiry or future delivery date such as July 1848 or March 1849, etc.

Over the years, the quantity of both commodities and stocks available for trade has steadily increased, with commodities standing now at an all-time high of over 600 which CSI tracks daily. Although many of these are still traded at the CBT and London exchanges, a host of about 50 newer exchanges have emerged to support the growing industry. The Winnipeg Grain Exchange was formed in Canada where products such as rapeseed, flaxseed, rye, barley, wheat and oats were originally traded in 1000-bushel

lots. The New York Mercantile Market traded Maine potatoes until a scandal killed off that commodity in the 1970s.

The Cocoa, Coffee and Sugar Exchange traded cocoa, coffee, and sugar, and the New York Cotton Exchange traded cotton and frozen concentrated orange juice. The Chicago Mercantile became one of the more successful exchanges after Pork Bellies began trading in 1961, Live Cattle in 1964 and Live Hogs in 1966. The New York Commodity Exchange introduced a cathode quality Copper in January 1966.

The CME's success in the mercantile area of meat products was followed by the development of the International Monetary Exchange where trading in European currencies began in May 1972. The Japanese Yen began at the same time on the IMM, but trading was initially inactive and light. The Mexican Peso was also traded, but a huge surprise devaluation killed that market until the recent restart of trading in the Peso.

Plenty of commodities have come and gone from the exchanges since futures trading began, including Shell Eggs, Frozen Eggs, Stud Lumber, Plywood, Sunflower Seeds, Crossbred Wool, Milled Rice and a host of bonds and bills. It is not uncommon for an exchange to re-tool and re-introduce a contract that had previously failed. Gold futures, for example, have been dropped at the Chicago Board of Trade, the Chicago Mercantile Exchange and the Mid America Commodity Exchange. They are now traded at each of these except the CME, as well as the Commodity Exchange in New York (COMEX) and in London, Hong Kong, Tokyo and Singapore.

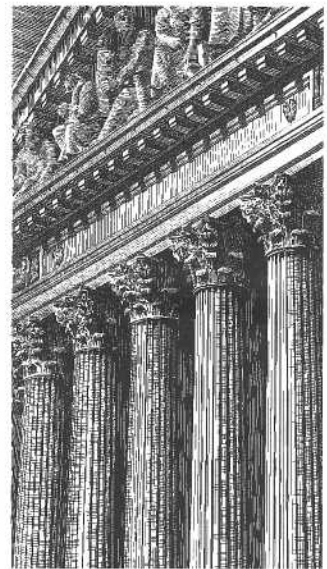
Many Americans enjoy trading the commodity futures markets because of the substantial opportunities for profit. Futures, as most traders know, are allowed to be margined with sufficient capital to protect the broker

from claims from his clearing house. This leverage is permitted because you are trading not an actual product, but a contract for a quantity of a product that, by the contract terms, will not exist until the contract's specified delivery date. This is why the transaction is called a future. Putting up 5% or less of the capital is often permitted by the exchange clearing houses. If prices go in your hoped-for direction, you can use your earned equity to pyramid your gains by buying still more of the original commodity or another of your choosing.

It is no longer necessary to sort through torn and yellowed newspapers or microfiche to research the price histories of commodities. Unfair Advantage comes with our full history on all world markets, as listed in our fact sheets. The program also provides updates of all the activity of all world commodity markets each and every day in a one-minute phone call over the Internet. CSI's QuickTrieve® data delivery product can do likewise for a subset of the full spectrum of world markets.

Now that we have given you a summary of how things got started and why the futures markets are attractive, perhaps you'll want to look into the more recent history of the commodity and stock markets which can be obtained through our Commodity Market Fact Sheet available from CSI's Web Site at www.csidata.com. The worldwide community of traders can only benefit from a better understanding of who we are, where we have been and where we are going. ♦

Bob Pelletier



Tech Talk

Each month in this column (formerly called Ask Customer Service), our technical support staff presents some common questions and answers that may be of interest to many CSI subscribers. Today's topic is data retrieval through Unfair Advantage® and QuickTrieve.

Q. *According to the Unfair Advantage user's manual, by 5:15 p.m. eastern time, data for futures markets in Asia, Europe and North America should be available. However, now and then I have found that some of the expected data may be missing from my files. It has been suggested that I can update safely after 7 p.m., particularly if cash data is required. What is the earliest I can update and be assured of getting all of the cash and futures markets?*

A. The times shown in the manual are for the typical user interested in a sampling of markets around the world. The manual should say that 90% of the time, CSI will deliver data at a prescribed mean time as listed. The UA manual will be amended to express this frequency. Please see page 47 of the April 1997 UA manual.

The inability to quote all prices on time every day is caused, for the most part, by the exchanges themselves. It goes with the territory of trying to address nearly every commodity market on earth. The exchanges we cover are all over the globe and we often have to call them to check where their data is or to check why they gave three different quotations to as many different sources. Exchanges leave things out, they are often late and they sometimes make incredible mistakes. Frequent personnel changes at some exchanges contribute to the problem, as does the ever-present risk of mechanical break-downs.

We are obliged to fix everything that goes wrong, which may involve pointing out errors and, in some cases, even teaching new employees at the exchanges how to do their jobs. It is a task we know well and are prepared to handle, but sometimes it takes more time than we would like. That's why we suggest an update time of 8 p.m. eastern time if you require the most complete data set possible, especially if you are concerned with the smaller

overseas exchanges.

We make changes until a cut-off time, which is usually 8 p.m., sometimes later. If you happen to receive no data for a particular commodity that settled late or was not quoted by your collection time, the omission will be corrected with the following day's update. After that, corrections, additions and changes are handled through our automatic correction file. Our system and procedures are designed so that nothing can slip through unnoticed or uncorrected.

Q. *If I retrieve an update through Unfair Advantage before all the commodity markets have been quoted, can I make a second call later in the day to fill in the missing data?*

A. It may be possible to quickly fill gaps in your data base this way, but doing so on a regular basis will cost you extra. Our system allows for an extra five or six updates each month at no extra charge, but double accessing your account more often than that will cost an extra \$10 per month.

If you find that certain commodities of interest to you are usually unavailable when you call for your update, you'll need to choose one of these three options: 1) adjust your update time to accommodate the missing markets 2) continue retrieving your updates at the normal time, but wait until the following day to get the late data in your normal update 3) make a second call after 8 p.m. eastern time, which will assure you have the most complete data available for the day.

Q. *Why does Unfair Advantage always re-distribute the previous day's download of data? For example, after getting a successful download today, the software re-distributed the data for yesterday, then distributed today's data. This has been going on for the last several program updates.*

A. Because the typical user may have downloaded yesterday's data before all data had been released, it is our policy to repeat the collection of yesterday's file with every download of today's data. This way every user's database stays 100% complete and current. Although it may seem as though just the distribution is repeated, you actually receive two complete updates in your brief retrieval session.

Q. *I recently switched to CSI for daily commodity updates from another service. I am accustomed to waiting several minutes while the data was transmitted and 30 minutes or more for data distribution. Now with CSI, my download takes only about a minute and the distribution, 5 seconds. Am I missing something?*

A. No, you're not. UA's data warehousing methods make it possible to transmit and distribute data very quickly.

Q. *How do I get historical data on a new market to explore with UA?*

A. Remember the CD you processed when you loaded the software? It included a full history on every commodity market in the CSI Commodity Database and it transferred that data to your hard drive. Your daily updates have been maintaining those files whether or not you have been actively watching them. To start tracking any new commodity, just add it to your local portfolios or request it for immediate charting. The data, which is already at your fingertips, will display instantly.

Q. *One day last month I was unable to get my Unfair Advantage update on my first attempt. What caused this and what can I do if it happens in the future?*

A. The server that handles our

Internet connection was down briefly on a few occasions last month, but was up and running within a few minutes each time. If you encounter this problem again, a second try a little later should get through. We have a T1 line, of which we use only about 2% of the band width, so all users should be accommodated once they reach our computer.

Q. *I am a QuickTrieve user and I am supposed to get quite a bit of free history with my prepaid subscription. Why does my bill show a charge for the history I downloaded?*

A. It is important to understand the difference between history on-demand and other types of history orders. History on-demand is data ordered through QuickTrieve's order subsystem and downloaded in the same modem transmission. Only this type of order is ever eligible to be received free of charge.

What isn't history on-demand? Any order that you place through a service representative, any history file that is retrieved using QuickTrieve's <C> Collect History Data option, and any data you receive on diskettes. You should expect to pay for any of these assisted history orders according to our standard rate schedule. ♦

