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In This Issue

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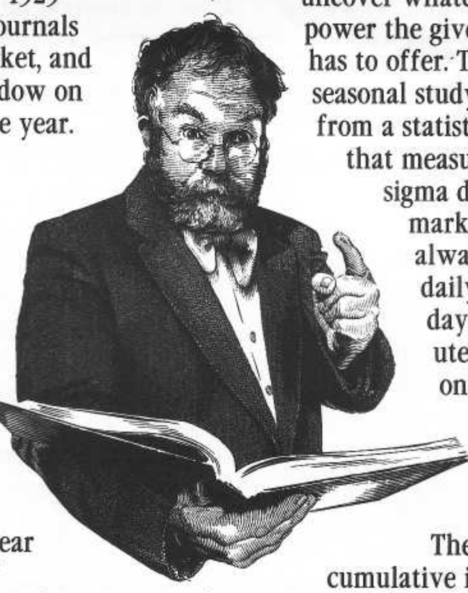
UA's Seasonal Study Uncovers Stock Market Seasonality – Recent Weakness Predicted

The ten-year anniversary of 1987's Black Monday was enough to set Wall Street on edge this October. The famous October crash of 1929 still looms large in the journals of "bad days" at the market, and casts an even bigger shadow on the scariest month of the year. Those of us who participated in this year's dark days of October may be ready to throw in the towel and leave October trading to the ghosts and gouls that seem to haunt the exchanges this time of year. Recent events may be adding Octoberphobia (fear of October) to the list of neurosis affecting stock traders. It makes you wonder if there is something to this growing aversion to trading in the tenth month of the year.



Applying UA's seasonal index study to the S&P 500 index shows a consistent pattern for the stock market, where the market exhibits an October low relative to the rest of the year. The index can easily be used as an independent input for any market one might want to introduce. An examination of the sigma readings that result in the index can be used to assess the reliability of your prediction. Any predictive power is welcome, but UA can give you a consistent edge of perhaps one to five percent more.

UA's cumulative seasonal index study can be applied to any market that exhibits seasonal characteristics in price movement and can be used to uncover whatever predictive power the given commodity data has to offer. The comprehensive seasonal study is formulated from a statistical calculation that measures day-to-day sigma dispersions in market movement. It always operates on daily data and each day of data contributes a little more than one-third of one percent of explanation to a given moving year of data.

The study is called a cumulative index because the resulting sinusoidal wave form is cumulative. Each day of data adds a trifle more intelligence into the resulting wave form, making it progressively more predictive as time goes on. Unlike the seasonality studies available to subscribers of other services and newsletters, UA's index can be overlaid on the entire history of the market and can be used to look ahead for past seasonal patterns.

Each of the competitive seasonal waveforms I have seen give only 12 points of intelligence, covering the entire period of supplied data. Their worth can only be "proven" in hindsight. In other words, a competitor's seasonal study derived from past data demonstrates seasonality in the past,

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UA's Seasonal Study...

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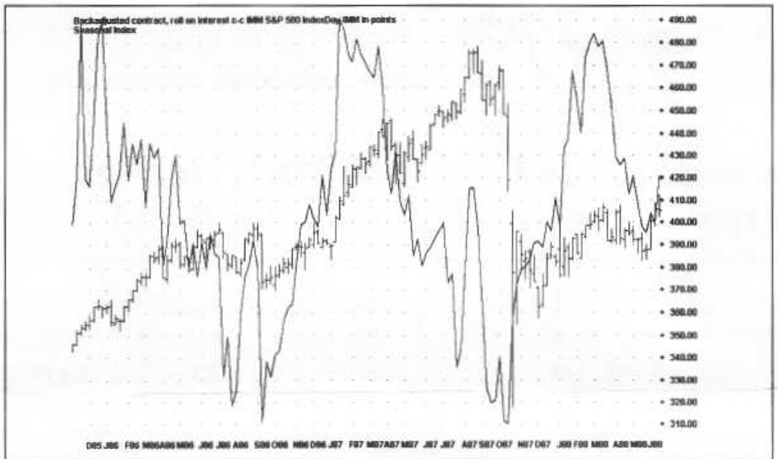
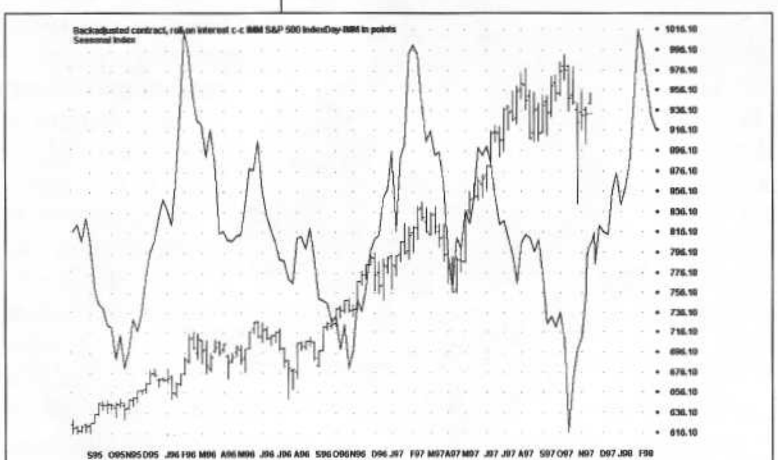


Weekly back-adjusted S&P 500, December '85 - June '88.
Seasonal Index 1982 - 1988



Weekly back-adjusted S&P 500, September '95 - November '97
Seasonal Index 1982 - 1997

NOTE:

Please notice that the Seasonal Index takes on a progressively more mature form as more data is supplied.

but it cannot be used to simulate its predictive power. This is because each of the twelve points have been derived from all data given to it, including the more recent (post study) period. Conversely, UA allows you to evaluate past performance fairly, without peeking ahead into the future. ✦

Bob Pelletier

Tax Alert for Mutual Funds

Although "tax day" doesn't arrive until April 15th, now, as we approach year-end, is an important time to protect your assets from the tax man. Although your tax advisor can probably recommend many ways to legally preserve your assets, we offer one suggestion for mutual fund investors. Be wary of investments in mutual funds at this time. This may not be the time to invest in mutual funds because many funds pay year-end capital gains on asset sales from the liquidation of certain profitable portfolio stocks. This can increase your tax burden unnecessarily.

Suppose you buy a \$10.00 fund that is paying a 10% capital gain. The fund pays you a \$1.00 capital gain payment, which you elect to reinvest to maintain an account balance of \$10.00. Through this act, you will have imposed upon yourself a tax liability of perhaps 25% or more of that capital gain payment. Without doing anything, your net worth will have dropped by 25 cents, making your \$10.00 investment worth only \$9.75. Had you invested in that \$10.00 fund on January 1st, and had it earned \$1.00 in capital during the year, you wouldn't have minded paying the 25 cents because you would have shown an after tax improvement of 75 cents to \$10.75.

This is very different from buying a fund now, with the year about to be closed. Depending on your tax circumstances, you may fare much better if you wait until the beginning of the new year to buy into a fund that makes distributions at the end of the year.

Reducing Equity Drawdowns and Fostering a Prudent Trading Style

There are many good trading alternatives available to the market speculator, but almost without exception, they can result in excessive losses before a given goal is reached. Unless one is content to accept interest earnings that may be less than our economy's inflationary growth, safe investments in the speculative futures and commodity arena may be hard to find.

What should you look for? We recommend finding ways to diversify without compounding risk. Diversification, in basic terms, is the act of booking trades in several markets at once to balance risk. In effect, diversification is engineering losses in one area to offset gains in another. This may seem like a simple approach to speculative investing, but it isn't as easy as it sounds.

Many firms supply software in the currency markets and/or the other financial markets, which the developers promote as tools to balance risk. What they may not tell you is that you can easily get burned in these markets because they have a common denominator — the dollar. Speculating in currencies and interest-sensitive markets is a good bet — part of the time — because these markets move in prolonged trends in one direction or the other. Currency values are slow to react to fiscal policy changes, making interest rates and currency valuation trends slow to produce a change in market direction.

Trade imbalances, inventory levels of foreign products and fiscal interest rate policy are some of the elements that impact the markets. They all interact as world markets establish the value of a given currency. The effect of the dollar is by far the most important aspect speculators must consider when trading foreign currencies. A weakening of the dollar will simultaneously affect all currencies held in a portfolio. Holding all other factors constant, the general movement direction of foreign currencies, as influenced by the dollar, will be the same. Therefore, if you thought you were diversified and protected by holding five different foreign currencies, then you may come to know the painful lesson that should something happen to the dollar, all the foreign currencies will react in the same consistent direction. This would be an example of imprudent diversification.

Another example would be a portfolio consisting of many foreign currencies and several financial products, such as U.S. treasury bonds and bills, in a long and short mix of positions. A surprise change in the sentiment for the value of the dollar could result in all positions recording a loss for the day when the change in policy was announced.

There are several ways to mitigate the revaluation effects of the dollar. Markets which trade in dollars, but which are not so directly linked to the dollar, should be considered in your diversification scheme. Agricultural products, stock market index products, options, and some foreign commodities are a few of the alternatives. Another alternative is to consider non-trend following procedures in your system choices. Contra-trend following technical procedures, although not as profitable as trend following procedures, may sometimes perform in an opposite way to the trend following procedures. This makes them a good choice when they are needed to balance risk and reduce simultaneous losses. The goal for the speculator should be to stay in the market and not be shaken out through the accumulation of many simultaneous losses.

When evaluating the merits of your trading system, carefully examine the safeguards that prevent excessive losses before your goal is reached. It is not always easy to stay ahead of the inflation rate, but doing so, while avoiding catastrophic losses, is a worthwhile goal. ✦

Tech Talk

Each month in this column, our technical support staff addresses several topics of interest in a question-answer format. This month they discuss a hodgepodge of commonly asked questions regarding the service.

Q. *How can I create a percent-change report like the one of Initial Public Offerings in the Technical Journal's Market Statistics section?*

A. QuickTrieve's® G) Print Data File option (on the QuickManager menu) produces this information. The screen prompts should be answered as follows: Upon selecting G) Print Data File, select the path for printing as prompted. To print information on all files in your directory, press <F2>. Press <Enter> to take the default responses from beginning and ending contracts and start dates. Next you'll be asked:

Do you want a form feed sent before starting each file? Enter N.

Do you want to print only X days from each with no headers between each file? Enter Y.

Please enter the number of entries to print from each selected file? Enter -1.

Do you want a single header line for each file printed? Enter N.

The report that is produced includes the last open, high, low and close, the high/low average on the first day on file, percent change from the first day on file, volume and open interest.

Q. *I am interested in calculating percent-change values for a specific period of time, and producing the information in a file. Can this be done with QuickTrieve?*

A. Yes. Use the instructions above, but specify the start and end dates instead of taking the defaults. To create a file, change the printer port from LPT1 or LPT2 (on page 9 of Change User Constants) to a filename of your choice, such as REPORT.TXT.

Q. *Do you have a backup for data delivery in case of system problems at CSI, and if so, how do I access it?*

A. We have such a system in place for Unfair Advantage® users. If repeated attempts to access data via the Internet fail, we recommend you try again using Direct Dial (long-distance) access. Our direct-dial lines are automatically routed to a backup system if the CSI host computer is not responding properly. This can be an effective solution if you need data in a hurry. Please be aware that you will be responsible for the telephone charges of direct-dial calls. This option is not functional for QuickTrieve updates at this time.

Q. *Does CSI offer pre-release test versions of its software?*

A. Yes, for Unfair Advantage. This software is continually evolving, so new releases are often available through our web site. Each update describes its enhancements over previous versions, and beta versions are identified by the letter b appended to the filename. The web site address for this is: http://pcweb/csidata.com/ua/ua.htm

Q. *Do you offer real-time customer support on the Internet?*

A. At this time, our on-line support is limited to e-mail. Our staff answers email as quickly as possible. Depending on the volume of requests, responses may be delayed by one to three days. If you need an immediate response from our technical support staff, please telephone us at (561) 392-8663 during our normal business hours (9 a.m. to 10 p.m., M - F). ✦