In This Issue

The Importance of Detrending Historical Series Before Simulating Past Performance

Every day, many thousands of market prices are entered into the CSI host computer system for re-distribution to traders, analysts and other commercial interests. This data, squeaky clean and ready for crunching, is archived and stored to produce a near-perfect record of the markets.

CSI data has many uses, including portfolio valuations and long-term technical analysis. One application for CSI's historical data is the simulation of past performance. While clean market data is the one and only starting point, even the best data requires some additional attention to make it most useful for analysis. An important and often-overlooked consideration is the inflationary or deflationary character of the market undergoing study. This market characteristic can heavily influence the results of your analysis.

Analysts using CSI data typically capture several decades of pricing information in various derived forms. These include time-weighted continuous Perpetual Contract® data, continuous back- or forward-adjusted contracts, unadjusted continuous nearest future contracts and continuous Gann-format data. These series can be fashioned through software such as Unfair Advantage,® or in some cases, downloaded directly from CSI. The idea is to develop input that enables fruitful, in-depth study. A trading algorithm is often applied to one or more of these series to simulate performance over time, with the goal of projecting more realistic future profitability.
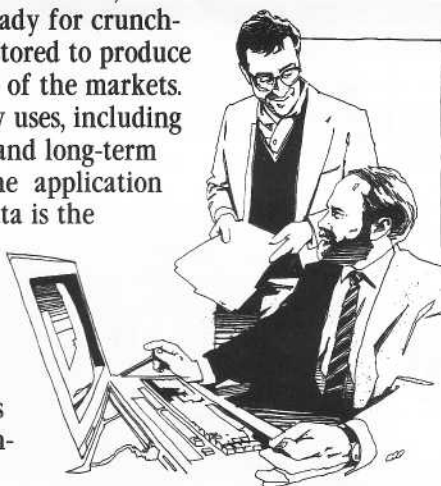
Unattainable Gain:

The price of tangible and consumable commodity products generally rises at a rate roughly equal to the inflationary forces in the economy for the given product over time. Taken to its extreme, the influence of uncorrected inflation tends to suggest that just about every commodity studied would yield a profit if it were purchased on day one of a commodity's life and sold on day n, twenty or thirty years later. If it were possible to do this (and it isn't), then it would be appropriate for your model to always buy on day one and sell on day n of an n-day series, and forget about your innovative trading algorithm. The fact that one could make a paper profit on artificial inflationary effects does not suggest that those profits could represent real dollars in your pocket. You need a way to remove those artificial profits induced by fiscal government policy from your simulated results to give you a more achievable promise of success.
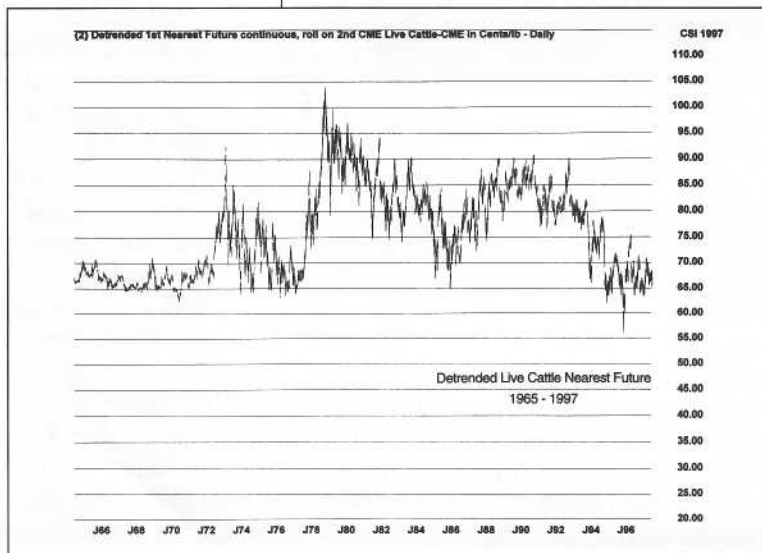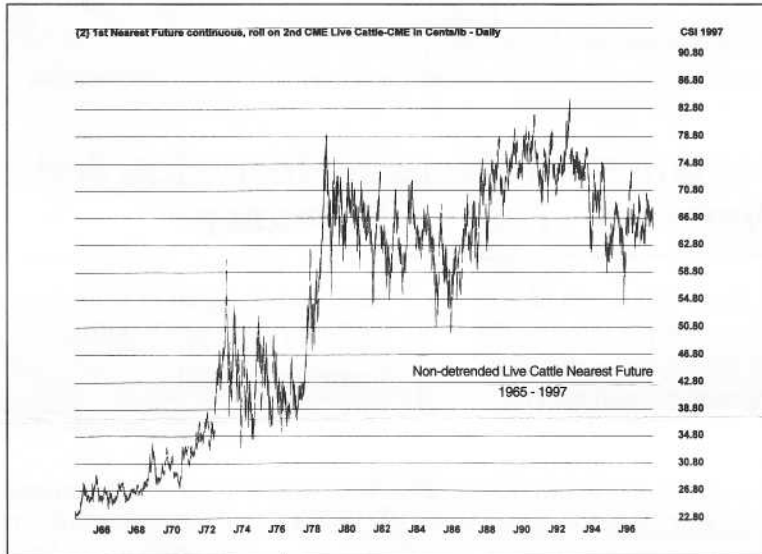
It is obvious that the persistent long-side bias existing in any long-term inflationary environment will heavily influence the results of your trading system and render the result-

[2] 1st Nearest Future continuous, roll on 2nd CME Live Cattle-CME in Cents/lb - Daily — CSI 1997

Non-detrended Live Cattle Nearest Future
1965 - 1997

[2] Detrended 1st Nearest Future continuous, roll on 2nd CME Live Cattle-CME in Cents/lb - Daily — CSI 1997

Detrended Live Cattle Nearest Future
1965 - 1997

The escalation in price of CBT wheat illustrates the need to address inflation: In 1899, CBT wheat was priced at 78 cents per bushel. Today's price is $3.50 per bushel, reflecting an increase of about 450% over the course of the last 99 years. This increase was somewhat modest because production efficiencies in machinery and the relative abundance of cheap petroleum energy have kept this agricultural product at the low end of the inflationary scale. Nevertheless, the inflationary bias exists in wheat, as it does for nearly all markets. An accurate representation of the worth of a hindsight trading approach can only be made by developing a procedure for transforming trade results in the past into present-day dollars.

Given our inflationary world, how can the analyst develop an unbiased system synthesis and simulation algorithm? Unfair Advantage starts with detrending. The software detrends data by taking the price of a product on the first day and the price of the product on either the last day of the series or (to avoid compromising the current contract being observed) the last day of the last non-current contract and computing the average positive (or negative) day-to-day slope. The data won't receive significant distortion because the relative day-to-day readings will appear almost the same as they were traded. Detrending simply gently shifts the whole curve up or down so that the starting price is nearly equal to the ending price. The slope over time is removed. The detrending step is handled before data is processed in any other way, creating a slightly modified input for analysis. After detrending, every simulated trade consummated by your trading system algorithm will be in terms of today's dollars, making the procedure relevant for measuring performance in today's terms.

An alternative to detrending would

ing performance unusable in practice. The average incidence of price doubling due to inflation is in the neighborhood of eight to fifty years. Although this is a broad range, it reflects the inherent inflation rate of our economy and is significant in long-term analysis.

Inflationary Effects on the Wheat Market:

If profits and/or losses accumulated over time are to be relevant to today's dollar costs, each trade result from the past must be brought forward and compounded in terms of today's dollar.

be to carry forward each simulated trading result into today's dollars using present-value interest-corrected computational methods. By adopting the simplified detrending approach offered by Unfair Advantage, both the long-side bias and the very inconvenient present-value computational adjustment would be eliminated.

The bias that is removed by detrending is the tendency for a trading system algorithm to conform to the inflationary character of the data supplied. If a market shows a 25 to 50 year upward inflationary slope, then the collection of simulated trades will have a bias toward long-side opportunities. In actual trading, raw contracts do not have such a bias. However, the algorithm used to learn how to trade would be based on long-term-biased input that would appear to permit trading in what seems to be an upward trending market. This is why I suggest the detrending option.

The average contract offered by the exchanges is too short-lived to produce a sufficiently large sample to certify past performance potential. Even if individual contracts span long periods, the supporting trading volume for very distant deliveries may be too sparse to be considered reliable. Therefore, the analyst is often forced into some sort of computed contract to realistically assess market behavior.

As the new December 1997 Unfair Advantage manual reports, the newest software release now offers enhanced capabilities in expressing your own unique computed contract approach. The seemingly endless array of options allows you to mirror your personalized trading style for future synthesis and simulation of your trading approach.

Unfair Advantage users have the tools to develop any series into one of many classifications, with or without detrending. We recommend that detrending be used for any long-term study to compensate for the artificial government-imposed inflationary or deflationary character of the market. Detrending your input offers better results and better and more meaningful long-term analysis in nearly every futures investment area except, perhaps, for interest-sensitive markets. With detrending, your CSI data, squeaky clean from the outset, is actually enhanced beyond its original form. ✦

Bob Pelletier

Referral Bonus Expanded

We know that 56% of new customer accounts are the result of referrals from our most loyal promoters: namely you, our customers. We have therefore decided to expand our incentive referral fee program. We announced last month that we would pay $25 to the customer who refers a new subscriber of an annual prepaid subscription if the referring customer was named upon subscription.

As an incentive to help your friends and associates remember to mention you when they subscribe to CSI, we now offer both the referring customer (you) and the referral party (your friend) a $25 credit.

This credit is earned by the referring customer as a credit against future charges after the new customer completes the third month of prepaid annual service, and does not apply to our mini portfolio service. The new user gets the $25 discount upon subscription. This offer cannot be combined with any other offer and may be discontinued without notice.

If you have a friend who would like to stay informed on just about every market on earth, why not suggest CSI? Be sure to ask them to mention your name when they subscribe. This is just our way of saying THANK YOU for supporting the CSI service. ✦

Bonus!

Tech Talk

Q. *I use Unfair Advantage to download data from CSI, which I then analyze with TradeStation.® Although I initially had no problems, lately I find that sometimes the file I select for charting is not the one that displays. What causes this and how can I correct the problem?*

A. Both TradeStation and SuperCharts® identify CSI-format and MetaStock®-format files based on their fixed relative position within your data directory. No files, not even expired or unnecessary ones, within the directory should be deleted because the relative position of the remaining files would be altered. This would affect their identities to the software. (ASCII files are not affected.) The problem described here occurs when files are deleted from the directory. For this reason, users of TradeStation and SuperCharts should not delete expired contracts!

Unfair Advantage may be deleting these files automatically, without any action on your part. Look in the User Settings menu of Unfair Advantage for the "delete expired contracts" option. Although this feature can be helpful in conserving disk space, it must be turned off to insure the relative position integrity for SuperCharts or TradeStation applications.

To keep your mutual portfolios (for Unfair Advantage, SuperCharts and TradeStation) in synch, avoid building files under UA's Nearest Future Group, and be sure the "delete expired contracts" switch is always turned off.

Q. *Unfair Advantage gives me an "out of sequence error" when downloaded files are distributed to my master database. What should I do?*

A. We have two suggestions, both of which should be performed before your next attempt to download data.

1) Check Unfair Advantage's User Settings menu for the "one day at a time" setting. The box should NOT be checked. If it is, click on it to turn OFF this option. 2) Use your Windows Explorer® (Windows® 95) or your File Manager (Windows 3.1) to delete all files in the ARCHIVES directory. Your next data retrieval/distribution session should be successful.

Q. *I use QuickTrieve and have recently had trouble charting my S&P 500 contracts. I tried re-collecting the data, but nothing helps. Any suggestions?*

A. The March '98 S&P 500 contract exceeded QuickTrieve 4.06's upper price limitation on October 7th and 8th of 1997, distorting data for the 3/98 contract as well as some nearest-future and Perpetual Contract data series. The new price range is accommodated in QuickTrieve version 4.07, which is available for free from our Internet web site. Anyone affected by this problem or who wants to be prepared for the next price surge should download the program at your convenience. If you do not have access to the Internet and would like the upgrade, please call or email our Technical Support Staff. A small disk/handling fee will apply to all orders shipped on disk.

To get the file from the Internet, first go to the CSI web site at www.csidata.com and click on Patch/Updates Library. You'll have two choices for QuickTrieve version 4.07.

The first option (qt407.exe) is the entire package to upgrade from any QuickTrieve version from 4.0 to 4.06. It includes all the latest enhancements to v.4.07. The second option (patch407.exe) includes only the minor enhancements made to version 4.07 on October 15, 1997. If you downloaded v 4.07 before 10/15/97, you can save time by

downloading this smaller patch.

Both choices are self-installing and self-extracting once you select the QuickTrieve directory for installation (probably C:\QUICK). When asked if you want to overwrite existing files, answer (Y)es each time. You'll need to re-collect historical data on the affected contracts after upgrading the software. Please feel free to contact our technical support staff if you need assistance. ✦

Keeping You Posted...

Users of very old versions of QuickTrieve (Apple II or pre-4.0 QuickTrieve) will need to manually create longer files to accommodate continuous files into the new year. Please consult your software manual for instructions on creating and moving files. ✦

Market Statistics Update

ADDITION TO THE STOCK DATA BASE

33105	IMAG	Imagemax Inc	OTC	971204

DELETIONS FROM THE STOCK DATA BASE

2503	FUBC	1st United Bancorp
2043	MAMOC	Advanced Mammography Systems Inc
12832	AAIR	Airways Cp
29063	AJAYW	Ajay Sports Inc Wt
4460	AACI	All American Communications Inc
15091	AACIB	All American Communications Inc Cl B
29746	ALRI	Allergan Ligand Retinoid Therapeutics Inc
8734	LACE	Alpine Lace Brands Inc
9654	ANBK	American National Bancorp Inc
3035	RMC	American Restaurant Partners LP Cl A
5668	APL	APL Ltd
2819	AHCC	Arbor Health Care Co
1263	STAK	Austins Steaks & Saloon Inc
12409	DRNK	Cable Car Beverage Cp

DELETIONS FROM THE STOCK DATA BASE con't.

7592	TPH	Central Transport Rental Group PLC ADR
18086	COMD	Compurad Inc
2762	CYRX	Cyrix Cp
1312	EPP	Enron Global Power & Pipelines PLC
12067	ERDIQ	ERD Waste Cp
8638	XUPS	Exide Electronics Group Inc
29801	FRFC	First Robinson Financial Cp
2972	FSFC	First Southeast Financial Cp
2790	GFII	Greenfield Industries Inc
3253	GRXR	Ground Round Restaurants Inc
15054	GYNE	Gynecare Inc
15203	HYBN	Hybridon Inc
1295	ISS	ISS-International Service Systems A/S ADR
9056	KNCI	Kinetic Concepts Inc
29540	LAZRW	Laser Storm Inc Wt
7347	LEI	Lehigh Group Inc
2472	MTCC	Magnetic Technologies Cp
9141	MAIL	Mail Boxes Etc
9183	MTWO	Melamine Chemicals Inc
13137	XPC	Morgan Stanley, Dean Witter, Discover & Co 700% 1997
4476	MSTR	Morningstar Group Inc
15925	MNET	Multicom Publishing Inc
9292	NETG	Network General Cp
29289	NXUZF	Nexus Telecommunication Systems Ltd Cl B Wt
29290	NXULF	Nexus Telecommunication Systems Ltd Cl D Wt
3660	NUKO	Nuko Information Systems Inc
12638	PNNW	Pennichuck Cp
2710	PITC	Pittencrieff Communications Inc
15252	QZAFQ	Q-Entertainment Inc
5298	SB	Salomon Inc
11182	SWI	Scudder World Income Opportunities Fund Inc
1103	SD	Sphere Drake Holdings Ltd
4315	SULL	Sullivan Dental Products Inc
1379	THOM	Thompson PBE Inc
2677	TMLNC	Timeline Inc
29372	TMLWC	Timeline Inc Wt
29155	TWHHW	Transworld Healthcare Inc Wt
9810	UFR	Uniforce Services Inc
7967	VIEW	Viewlogic Systems Inc
3589	VTC	Vitronics Cp

NAME, SYMBOL & EXCHANGE CHANGES *

12207	ACNFC	Accent Software International Ltd - New symbol: ACNTF.
1564	APTX	American Cinemastores Inc - New name: Apparel Technologies Inc.
12252	ANSN	Ansan Pharmaceuticals Inc - New symbol: DSCO; New name: Discovery Laboratories Inc.
12945	ARVI	ARV Assisted Living Inc - New symbol: SRS.
12269	ATLS	Atlas Air Inc - New symbol: CGO; New exchange: NYSE.
11208	BTN	Ballantyne of Omaha Inc - New exchange: NYSE.
15878	BOYL	Bank of Yorba Linda - New name: BYL Bancorp.
9854	VSLF	Banyan Strategic Land Fund II - New name: Semele Group Inc.
8155	BMED	BEI Electronics Inc - New name: BEI Medical Systems Co Inc.
11249	BGF	Big Flower Press Holdings Inc - New name: Big Flower Holdings Inc.
15893	FRLN	Farallon Communications Inc - New symbol: NTPA; New name: Netopia Inc.
8746	FOIL	Forest Oil Cp - New symbol: FOC.
8746	FOC	Forest Oil Cp - New symbol: FST.
8889	HPRK	Hollywood Park Inc - New symbol: HPK; New exchange: NYSE.
11237	KCC	K-III Communications Cp - New symbol: PRM; New name: Primedia Inc.
6541	LBF	Latin America Dollar Income Fund - New name: Scudder Global High Income Fund Inc.6
541	LBF	Latin America Dollar Income Fund - New name: Scudder Global High Income Fund Inc.