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Unfair Advantage's New Back Adjuster

After considerable effort, a new back adjustment module has been incorporated into CSI's Unfair Advantage® software. It greatly enhances the program's ability to analyze decades of history on any given futures market as a single continuous time series. These time series can be prepared from multiple delivery months, derived from many different futures contracts over time, without manually piecing together trading results. The new module will be delivered with all future UA releases beginning with version 1.66 beta, 1.67 beta and beyond.

The option of back adjusting a time series is offered to simplify the simulation of futures market behavior. The alternative of analyzing hundreds, perhaps thousands, of individual contracts that were traded decades ago to form a basis for releasing a trading system would be a cumbersome exercise. The analyst should, after discounting for hindsight bias, slippage and commission expense from contract splicing, attempt to analyze a continuous series representative of the market as a whole. Using a back adjusted or other type of continuous series is a likely first step in simplifying the analytical verification task. Although UA users have great flexibility in designing custom back-adjusted series, the resulting files are given unique names which reveal the

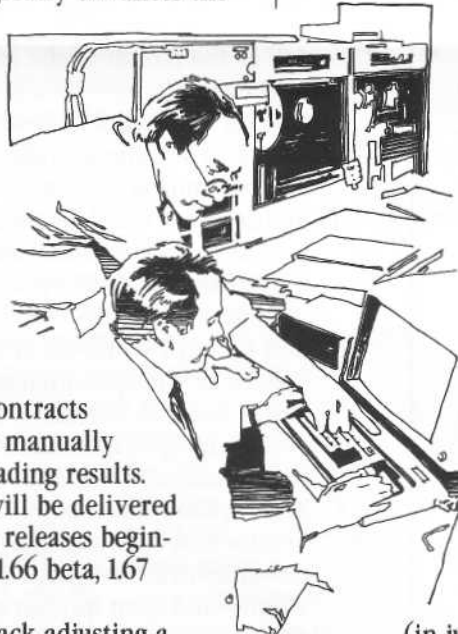
specific parameters used.

There are a few basic decisions a user might consider when electing to back adjust a time series into one continuous series. The first step upon requesting a computed contract series is to identify which calendar delivery months should be used as input to become the basis for the final back adjusted series. Since Unfair Advantage includes the full complement of all contracts traded over time, beginning with the very first day of trading

(in just about every world market), any mix of delivery months may be selected. Your desktop computer can then splice together elements of the many raw input time series into a meaningful representation of the market over time. In effect, this is an attempt to force a collection of commodity contracts for a given commodity to appear like a stock that does not usually split, pay dividends or offer capital gains.

Aside from the above contract selection opportunities where the user accepts certain defaults, and/or adds or deletes from the choices, additional control opportunities are given which decide the construction of the back adjusted series. Here are some of the control options:

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Unfair Advantage's...

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For information on our standard and alternative back adjustment options, visit our website at: <http://pcweb.csidata.com/ua/backadj.htm>

- 1) Contract splicing,
- 2) Back Adjusting or Forward Adjusting,
- 3) Adding a constant to elevate historical prices out of negative territory,
- 4) Detrending historical prices to transform all price data into today's dollars,
- 5) Roll forward options-
 - a) Roll forward on last trading day,
 - b) Roll forward on any given day of the month relative to the first day of the month or the last day of the month,
 - c) Roll forward when a newer contract's volume overtakes the existing contract's volume,
 - d) Roll forward when a newer contract's open interest overtakes the existing contract's open interest,
 - e) Roll forward when either the volume or the open interest of a newer contract overtakes the volume or open interest of the older (former) contract,
 - f) Roll forward when both the volume and open interest of a newer contract overtake the volume and open interest of the older contract.
- 6) Force rounded tick values of back adjusted price reports to conform to exchange sanctioned minimum tick values.

There is another switch setting in UA which governs the act of rolling on volume, open interest, either volume or open interest or both volume and open interest. The volume/open interest switch settings provide for 1) Rolling early (or just about on time) before volume and open interest are actually known to the trader (a one-day delay), and 2) rolling when the volume or open interest information is actually known (a two-day delay).

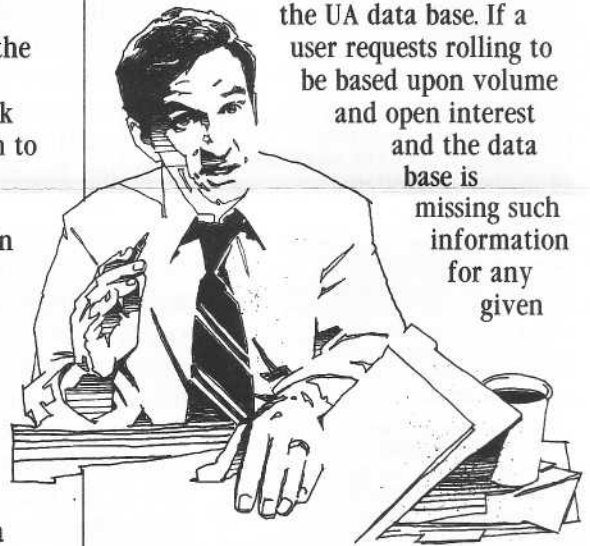
In your typical U.S. style commodity market, open interest and volume for

today's trading is not actually available to the trader until the next day (usually near the end of the next trading session). So the most current information that the trader knows on Wednesday morning, for example, is Monday's open interest which was released mid day on Tuesday. If you want to roll forward to the next actively traded contract solely on the basis of open interest or volume, then you will be rolling slightly early if you base that decision on the volume or open interest known to you on Tuesday (when Monday's open interest is reported).

Therefore UA users have a choice when rolling on volume or open interest: They can roll slightly early as in the above example, or they can wait a day and roll when the decision-making statistics are actually known. Taking the more realistic choice, "roll when known" will delay the rolling by one more day.

Another caution concerning volume and open interest roll-forward decision making is the actual condition and presence of volume and open interest statistics held in the UA data base. If a user requests rolling to be based upon volume and open interest and the data base is

missing such information for any given



day, UA will not roll forward. In addition, if the most recent day on file is not equipped with volume or open interest information, UA will automatically default to the most distant contract for the current

day. Missing data such as this, of course, can be easily rectified by manually supplying estimated volume and open interest statistics for the current day. Another remedy is to temporarily roll on a given date or any of the many other rolling means available. The basic purpose of the Computed Contract facility is to permit trading simulation and testing into the past, and UA does this fairly well.

The above contract splicing options permit lining up the opening prices of the contract from which one rolls with the opening prices of the contract into which one rolls by making a price adjustment to all the days of price data for the contract out of which one rolled. On the day splicing takes place, the difference between the opening prices of the two contracts determines the cumulative contribution (in points) to be added to or subtracted from all earlier prices in the backward series. The same calculations are made for the close-to-close option. A close-to-open splicing option is also available, where the close of one day is matched up with the opening price of the day before. Coupled with this option is the opportunity to line up the close on the day before rolling day with the open of the new contract on rolling day and 1) ignore the overnight movement, 2) preserve the overnight gap of the old contract, and/or 3) preserve the overnight gap of the new contract into which one will roll.

The most appropriate choice may be to use the close-to-open choice, which preserves the overnight gap for the "new" contract. This would force using the future contract that the user would actually enter in forward time.

The act of splicing contracts

together over time, regardless of the type of splicing requested, has a tendency, in some markets, to produce past prices that go negative. Some splicing options contribute to this bias more than others. It will be the user's decision to make the most appropriate choice for his or her unique application.

UA offers the opportunity to minimize the occurrence of negative prices through the detrending or forward adjusting option or to eliminate it altogether by asking UA to add a computed constant to the entire series. (The introduction of the elevation option is costly in terms of computer time and is accomplished outside the routine prompts through a change in UA's User Settings.)

This later option will force current contract prices to be increased by the cumulative splicing constant which the user may determine by subtracting the current close of the contract in

which one would be trading from the computed contract's equivalent price.

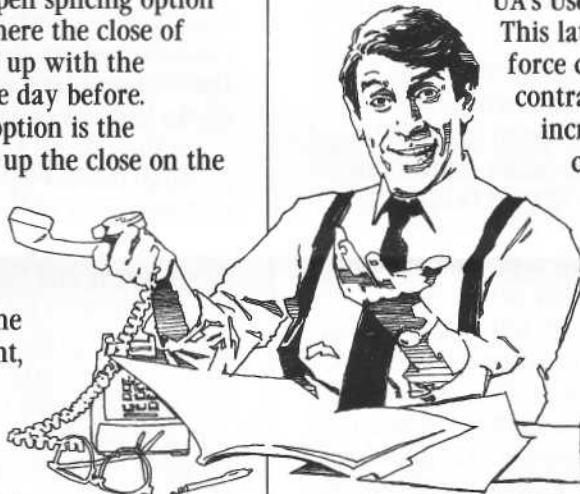
Detrending is a helpful option for those who would like to arrange all past prices into today's dollar terms. Detrending will minimize the tendency to show negative prices, but

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Having trouble with your S&P 500 data?

See Tech Talk on Page 4.



Tech Talk

Each month in this column, our technical support staff presents topics of interest to many subscribers in a question-and-answer format. This month they address some frequently asked questions about QuickTrieve® and Unfair Advantage.

Q. *What happened to my S&P 500 Data? QuickTrieve won't plot it.*

A. The March '98 S&P 500 contract exceeded QuickTrieve 4.06's upper price limitation in October '97, and again in February '98, 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.

We addressed this issue in the January '98 Technical Journal, but are repeating it here for the many customers missed the previous reference. We apologize for the inconvenience

Q. *I live in Australia and have had trouble getting my data collection times in synch with your posting times. Nothing seems to match the times listed in the Data Release Schedule in the Unfair Advantage manual. Please explain.*

A. We have many questions of this nature from our customers in the Southern Hemisphere, who are perplexed when we say the data is posted according to the schedule. The confusion seems to lie in our seasonal differences and the use of Daylight Savings Time. The same old adage of Spring Forward; Fall Back applies all over the world, and it reaps havok on time schedules everywhere.

Here is the situation: In Fall, most of us in the Northern hemisphere (including the major exchanges) move our clocks back one hour; Our neighbors in the Southern Hemisphere simultaneously move their clocks ahead one hour for the Spring. Conversely, in Spring we in the Northern Hemisphere move our clocks ahead one hour, while those in the Southern Hemisphere move their clocks back an hour for Fall.

In the case of Australia and New Zealand, this forces a forward time differential of 16 hours between the East Coast US in our Fall and Winter (your Spring and Summer) and a 14 hour differential for six months beginning in our Spring (your Fall). With a 16 hour differential, when it is 5:00 P.M. in the Eastern U.S., it will be 9:00 A.M. of the next day in Sydney, Australia. To solve the problem, just keep these time differences in mind and adjust your retrieval times accordingly.

Q. *I have written an analysis program that uses UA's API (application programming interface) to get the data. I find that the first one or two files run smoothly, but soon I run into problems with insufficiently*

memory. How can I get around this?

A. To minimize memory consumption with the API, we recommend you analyze one file at a time, in serial fashion, and flush CACHEDATA between files. If multiple files are analyzed simultaneously, more memory will be required.

Q. When I download more than one day of data with UA, I sometimes see that the data stops short of the current date. What should I do?

A. This problem is not generally serious and can be corrected by repeating the update. Any time an unrecoverable error occurs on a given day of updated data, UA will not proceed past the flawed date. This procedure is put in place to protect against compromising your local data base. We recommend that you keep your database current on a daily basis to reduce the amount of information transmitted in a single call. If you need to download several days of data at one time, try to avoid peak load periods which occur between the hours of 5:00 PM to 8:30 PM Easter time.

Q. I use Unfair Advantage, but don't want to look at all 450 commodities. Is there a way to shorten the list?

A. UA's retrieval sessions will always draw down the complete database, keeping everything you might want to follow at your fingertips. You can avoid viewing unwanted commodities by removing them from your local UA portfolio. ♦

Unfair Advantage's...

(continued from page 3)

will not eliminate negative readings for all applications. Detrending flattens the series linearly, but does not distort the day-to-day, month-to-month and

year-to-year cyclical movement.

Detrending will correct for inflation or deflation as the case may be. In our view, detrending is a realistic option because in its absence, past prices hold on to inflationary effects. Few traders other than, perhaps, banks can profit from inflation.

This brief report on Back Adjusting is brought to you because of the interest traders have shown and because UA has been improved to offer more Back Adjusted capability. Please do not overlook Perpetual Contract, Nearest Future and Gann Contract calculations which are also part of UA's computed contract facility. ♦

Bob Pelletier

Market Statistics Update

DELETIONS FROM THE STOCK DATA BASE

12838	AERTZ	Advanced Environmental Recycling Technologies Inc Wt
4674	AGB	ArgentBank
5780	BBI	Barnett Banks Inc
8237	BSN	Boston Technology Inc
15527	BFPT	Brooks Fiber Properties Inc
9822	CAWS	CAI Wireless Systems Inc
5947	CBB	Caliber System Inc
29314	CRLGW	Carlyle Golf Inc Wt
9726	CRP	Carson Pirie Scott & Co.
5997	CHPS	Chips & Technologies Inc
8485	CCIX	Communications Central Inc
15480	CSRV	CompuServe Cp
4898	CVN	Computervision Cp
9490	PIPEQ	Consolidated Stainless Inc
3724	CLL	Crown Laboratories Inc (EC)
3148	RVR	Cruise America Inc
4685	TRUX	Deflecta-Shield Cp
7951	FAUL	Faulding Inc
8685	FCOB	First Commercial Bancorp Inc
3458	GBY	Great Bay Casino Cp
6845	HLO	Hi-Lo Automotive Inc
7001	HFI	Hudson Foods Inc Cl A
29204	INVRZ	Innovir Laboratories Inc Wt Cl B
29266	INSIW	Insci Cp Wt
4623	IRPPF	International Petroleum Cp
2910	KAMNZ	Kaman Cp Dep. Pfd.
6909	KLOFY	Kloof Gold Mining Ltd. ADR
9433	MFI	Mac Frugal's Bargains Close-Outs Inc
15607	MLMIQ	Microleague Multimedia Inc
29558	MLMWQ	Microleague Multimedia Inc Wt
9235	MBLE	Mobile Gas Service Cp
2181	NETC	Netcom On-Line Communication Services Inc
9618	NTIIC	Neurobiological Technologies Inc
18414	NCEBP	North Coast Energy Inc Cum. Conv. Pfd. Series B
3422	ONA	Oneita Industries Inc

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Easy Money

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