

NOTE:  
AREA CODE  
CHANGE

© 1988 Commodity Systems, Inc. (CSI), All Rights Reserved.  
200 West Palmetto Park Road, Boca Raton, FL 33432, USA  
(407)392-8663, Telex 522107

VOL. IV NO. 5 \* \*

MONDAY, MAY 2, 1988

Boca Raton, Florida

\$5.00

WHAT'S NEW ---

\* \* \* \* \*

The staff at CSI would like to wish everyone a happy and safe Memorial Day Weekend. CSI will be closed for voice contact on Monday, May 30th.

\* \* \*

May enjoys a multitude of interesting holidays world wide: Memorial Day, May Day, Constitution Day, Ascension Day, Hari Raya Puasa Day, Vesak Day and Victoria Day are important holidays to citizens around the world. Here are the markets affected.

All U.S. Markets will be closed May 30th for the Memorial Day holiday.

All United Kingdom markets and financial institutions will be closed May 2nd for May Day.

All Japanese markets will be closed May 3rd and May 5th (Constitution Day).

Paris markets will be closed May 12th (Ascension Day).

Singapore markets will be closed May 2nd (May Day), May 16th - 17th (Hari Raya Puasa), and May 30th (Vesak Day).

All Canadian markets will be closed May 23rd (Victoria Day)

\* \* \*

Long distance users, please change the area code on your QUICKTRIEVE® to 407. Page 2

\* \* \*

A unique way to protect your home from intruders. Page 2

\* \* \*

Additions, changes, and deletions to the stock data base Page 3

\* \* \*

Stock splits Page 3

\* \* \*

© QUICKTRIEVE is a registered trademark of Commodity Systems, Inc.

MORE ON MONEY MANAGEMENT

Having given our readers an opportunity to sample the mechanics of our modified Martingale system in the February and March 88 News Journals, some customers have asked about the relative advantages and disadvantages of such an approach. Although the mild progression system definitely increases the probability a given trade series will end in success, the expected value of the outcome remains unchanged. Martingale or any mild progression helps to push into the future the inevitable negative result.

One reader pointed out that it would be more appropriate to regulate the number of dollars to place at risk by differencing the likelihood of success and the likelihood of failure. If the probability of Failure, F, is subtracted from (1-F), the probability of success, then the investment level, I, can be defined as the difference times the capital, C, available for trading.

$$I = [(1-F)-F]*C$$

A capital of \$100,000 and a failure rate of .49 would produce a maximum investment level, I, of:

$$I = [(1-.49)-.49]*\$100,000$$

or

$$= .02*\$100,000$$

$$= \$2,000$$

based on the assumption that profits and losses deliver equivalent dollar gains or losses. Total capital varies as a function of F thereby influencing investment from trade to trade. Carrying this example to the extreme, if the likelihood of failure is 0, then I would become:

$$I = [(1-0)-0]*C$$

$$I = C$$

In other words, when the probability of failure is 0, the probability of success is 1 and the investment level should be your entire capital account.

The catch, of course, is in assessing the failure rate for a given trading opportunity. For some readers it should be pointed out that the likelihood that a given trade produces a loss (the failure rate) is a statistic with a mean and standard error. Statistical sampling theory tells us that the standard error (standard deviation) is defined as the square root of the quantity  $F(1-F)/(N-1)$  where N is the sample size that led to the assessment of F.

The standard deviation is, in fact, a percent which will give the user a range about the estimated failure rate where the true failure rate is likely to exist a percentage of the time.

For example, with a failure rate of .45 based on a sample size of 100 actual trades the standard deviation (S.D.) will be computed as:

$$\begin{aligned} \text{S.D.} &= \sqrt{\frac{.45 \times .55}{99}} \\ &= \sqrt{.0025} \\ &= .05 \end{aligned}$$

In this example, two standard deviations will give the trader 95% confidence that the mean success rate of .55 could be drawn from a population that ranges from .55+2\*.05 to .55-2\*.05 or .45 to .65.

In other words, with the 100 sample experiment the actual measured success rate of 55% could be in error by plus or minus 10%.

The point of this example and the introduction of the possible error calculation is to make it clear that your estimate of success or failure is an estimate of the true average and could be subject to substantial error. The example provided says that there is a chance that the 55% success rate observed in the 100 trade sample could have been drawn from a population that had a mean success rate of

only 45%. Such a situation could have been unfortunate if you relied too heavily on the 55% estimate. You could have been trading a 45% system when, in fact, you thought you had a 55% system.

Another calculation is necessary to determine whether the worst case 45% system is in fact unprofitable. To do this compute the expected profit, E, of the worst case system that will occur 95% of the time.

$$E_{95} = .45 \times \bar{P} - .55 \times \bar{L}$$

where

- .45 is the worst case percentage of expected profit.
- .55 is the complement of the worst case percentage of profit
- $\bar{P}$  is the expected average profit per trade, and
- $\bar{L}$  is the expected average loss per trade as drawn from the 100 trade sample.

To improve still further your confidence that you have a reliable estimate of success, the estimated mean should be based on either a larger sample size of trading history or the estimated failure rate should be a lower quantity.

#### LONG DISTANCE DATA COLLECTORS MUST CHANGE AREA CODE TO 407

As we mentioned in the April News Journal, the area code for Boca Raton, Florida and points north of here have been changed to 407 from 305. CSI's telephone number has remained the same, 392-8663.

Customers who dial long distance to access our computer also need to change the area code on their QUICKTRIEVE user constants file to 407. The telephone company has granted a two month grace period where both 305 and 407 will connect until June 15th. However, to avoid any inconvenience in the future, we recommend that you make the necessary change now.

#### FMD PC PRODUCT APPLICATION (A NOVEL SECURITY SYSTEM)

A Financial Micro-Data customer had us configure a low priced PC to supplement his

security alarm system. We designed a system for him and thought you might be interested.

The PC controls 20 infrared motion detector sensors which are mounted in strategic locations around the exterior of this user's house. The low voltage input of the motion detectors activates 35 electronically controlled sprinkler valves and nearly a dozen speakers which give voice notices to a potential intruder through a low cost voice synthesizer.

When a trespasser is detected after a specified time in the evening (as determined by the system clock) the voice synthesizer warns the intruder to leave the premises. After a 10 second delay, the outside sprinkler zone violated is flushed with water from the volume of a 1 1/2" pipe. If the intruder approaches a window or a door the sprinkler valves over such openings drench the area immediately over such potential points of entry. The computer follows the intruder around the home turning on and off various sprinkler zones as necessary.

Inside the house the owner is given a 24 hour full voice account of the intrusion or outside activity and an early alarm of possible break in. Other expansion options given to the homeowner are the possible control of outside video cameras and lights and the possibility of introducing an ink like siphon vat that may color code the intruder.

Can we put one of these systems together for you? Call FMD for details.

#### NOTES FROM MARKETING

Price decrease announcement - Effective May 1, 1988 CSI's daily data prices on securities, options and mutual funds will be reduced by 50%. Please consult the stock or option column on the enclosed price schedule.

The implementation of this price decrease will be done on June 1st with retroactive credits given back to May 1st.

#### ADVERTISEMENT ENCLOSED

We have enclosed advertisements for the

following products: The Epoch and Mesa Trading systems by John Ehlers, and the Relevance III Trend Series by R. Maynard Holt. CSI accepts advertisements to accompany this News Journal for the sole purpose of defraying postage costs.

#### ADDITIONS TO THE STOCK DATABASE

5095 GIM	Templeton Global Income	880317
5614 OMS	Oppenheimer Multi Fund	880325
5582 VAY	Value Line Arithmetic Ind.	880201
5769 ABX	American Barrick	861231
5629 BZF	Brazil Fund	880331
5266 TXD	Toronto 35 Index	871029
5074 HD	Home Depot	840820
5898 PIM	Putnam Master Intermediate	880422

#### CHANGES AND DELETIONS TO THE STOCK DATABASE

5991 GNMR	Genmar Ind. was acquired by MNST Minstar Ind. Inc. on 880324
7006 AGA	Airgas Inc. changed symbol to ARG
7465 PPS	Paco Pharmaceutical was acquired by R.P. Share Inc. SCHC on NASDAQ Exchange
7561 SAV	Savannah Elec. & Power was acquired by SD 5221 Southern Co.
5955 BKNE	Bank of New England went to NYSE on 880411, new symbol is NEB
5898 PNP	Pay'N Pak was delisted on 880413; they had a management buyout

#### STOCK SPLITS

STK #	COMPANY NAME	SPLIT	DATE OF SPLIT
5561 BMS	Bemis Co. Inc.	2/1	880404
5424 WWY	Wrigley (Wm Jr) Co.	2/1	880405

**IMPORTANT NOTICE:** THE VIEWS AND INFORMATION EXPRESSED IN THIS DOCUMENT REFLECT EXCLUSIVELY THE OPINIONS AND EXPERIENCE OF THE AUTHOR, ROBERT C. PELLETIER. NEITHER CSI NOR THE AUTHOR UNDERTAKE OR INTEND TO PROVIDE TAX ADVICE OR TRADING ADVICE IN ANY MARKET OR ENDORSE ANY OUTSIDE INDIVIDUAL OR FIRM. READERS SHOULD CONSULT COMPETENT FINANCIAL ADVISORS AND TAX ADVISORS OR OUTSIDE COUNSEL BEFORE MAKING ANY TRADING, SOFTWARE PURCHASE, OR INVESTMENT DECISIONS. CSI DOES NOT STAND BEHIND OR ENDORSE THE PRODUCTS OF ANY OUTSIDE FIRMS.