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The Driving Force Behind the Stock and Bond Markets

As we go to press in mid December, we note the surge in 30-year Bond prices which has pushed yields down very close to an even six percent. The bond surge has been accompanied by moderate drops in the price of gold and crude oil, and a steadily improving stock market. The positive outlook for the bond market is reported to be a reaction to low inflationary prospects. What does all this mean to the future of stock and bond prices and why are we now witnessing these apparently encouraging statistics? It could mean increased prosperity - but with the ever-present threat of renewed inflation. Only time will tell what lies ahead, but in the meantime, let's give credit where it's due. A lot of credit for the current positive outlook goes to our Government through the Federal Reserve, some belongs to American businesses and part to the American people themselves.

For the government's part, the Federal Reserve Board has been minding our money supply with a generous hand. If you look very closely, you will likely find that the Federal Reserve has been increasing the money supply at a faster rate than normal. Although not universally accepted, many economists believe

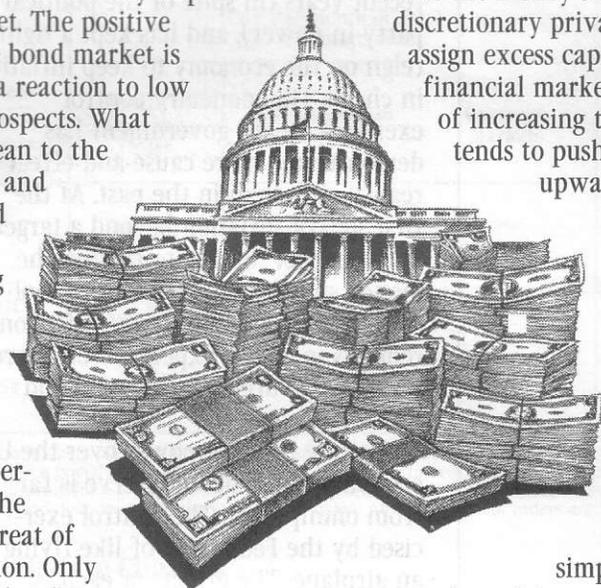
that monetary policy (controlling the money supply) can stimulate the economy better than fiscal policy (controlling taxes, etc). The idea is that since the supply of stocks and bonds is relatively fixed over the short run while the money supply varies, discretionary private spending will assign excess capital to the financial markets. Thus, the act of increasing the money supply tends to push market prices upward. In other

words, when people find themselves with more cash than they need, they tend to invest more money in the markets.

Through the simple law of supply-and-demand, stock and bond prices then rise.

Bonds and stocks generally move together because, as income producing vehicles, they possess a certain amount of substitutability. Which market moves first depends upon the relative opportunity and risk. Bonds offer less risk with a fairly safe reward. If stocks lag behind as bonds surge, the opportunities for greater reward with moderate risk cause a switch in preference to stocks. Still, the markets move upward in tandem. All this from the Federal Reserve stimulus through the money supply!

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The Driving Force ...
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“The control exercised by the Fed is sort of like flying an airplane; The effects of each movement do not result in an immediate reaction.”

The key to movements in overall stock and bond prices is significantly dependant upon the relative growth in the money supply as compared to its trending norm. When inflationary forces as witnessed by government reports on producer prices, consumer prices, and other factors are in check, the Fed may loosen the reins on the economy and allow money supply to grow. On the other hand the Fed will tighten controls when evidence of inflation appears to increase.

The Federal Reserve has been more diligent at the economic controls in recent years (in spite of the political party in power), and has kept a tight reign on the economy to keep inflation in check. The monetary control exercised by the government has demonstrated more cause-and-effect reality now than in the past. At the first sign of inflation beyond a target norm, expect the Fed to tighten the money supply in an attempt to cool off any impending boom. If inflation remains in check, expect lower interest rates and a surging stock and bond market.

Despite its great power over the U.S. economy, the Federal Reserve is far from omnipotent. The control exercised by the Fed is sort of like flying an airplane; The effects of each movement do not result in an immediate reaction. The fed makes a move, then waits to see how the economy reacts. Drastic moves in any direction are typically avoided to prevent uncontrolled turns or spins.

An interesting player in the money supply game is American business. The U.S. economy offers an environment that allows business to exercise money supply decisions through the acceptance of government loans. An improvement in business conditions caused by war, peace or technological change can lead to a marked increase in business loans, which pump a great deal of money into the economy.

Business loans rose six billion dollars from early September through early December of this year. Business money filters through the economy in many ways, including as paychecks to workers. Here again, with excess money in hand, American investors fuel the stock and bond markets. Through business loans, the government plays a more minor role in providing the economic laboratory for success.

Whether an emphasis on monetary policy to control the money supply will work to maintain the U.S. economy is possibly a moot point. Like the backing for the U.S. dollar, “In God we Trust” (instead of trusting in gold or silver), public trust can make all the difference. If the American people have confidence that current monetary policy is effective, then the perceived prosperity may be a self-fulfilling prophecy. Optimism may be the catalyst needed to sustain the effectiveness of the current monetary policy. ♦

Bob Pelletier



The monthly Federal Reserve Bulletin provides a wealth of information on government actions that affect the economy, including weekly money supply figures. For an annual subscription write to: Publication Services, Board of Governors of the Federal Reserve System, Washington DC 20551. Annual rates are \$25 for U.S. & Canada, \$35 overseas.

Drastic Price Cuts for Historical Data and Custom Portfolios

Recent advancements in our internal processing and in our retrieval software have significantly reduced our costs in providing custom data orders to our customers. We wish to pass the savings on to you by cutting prices for both custom historical data orders and custom daily-update portfolios.

The biggest change in our pricing refers to on-demand history. This is historical data that is ordered through

QuickTrieve version 4.05's Order subsystem, received and automatically processed by the CSI host computer, and then downloaded by the user in the same phone call. This service is a real breakthrough in CSI's offerings and should greatly enhance the accessibility of our massive data bank. Because the manual labor involved in these orders is virtually eliminated, our cost for providing this data is now

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Custom Historical Data Orders for Futures, Stocks & Options

Telephone Access (Cost per month of data) \$10 minimum when orders placed by voice					History on Disks (Cost per month of data) \$50 minimum order		
Method of Access	U.S. & Canadian Markets		Overseas Markets		Months of Data this Order	U.S. & Canadian Markets	Overseas Markets
	History on Demand	Assisted History Orders	History on Demand	Assisted History Orders			
Direct Dial	10¢	20¢	15¢	30¢	First 500	20¢	30¢
U.S. or Canada Network & Telenet via PTT	20¢	30¢	25¢	40¢	Next 500	15¢	23¢
Non-U.S. via Tymnet or Sprintnet	45¢	55¢	50¢	65¢	Over 1000	10¢	15¢

General Pricing: Any order of less than six months per contract or three months per option is subject to a \$1 set-up fee per item. A six-month minimum charge applies per stock. Except for History On-Demand, data prior to 1969 is priced at a 100% premium for individual contracts or \$40 per year for all contracts. Data is sold at a 30% discount for weekly prices and a 50% discount for monthly prices. History on Demand refers to historical data that is ordered via QuickTrieve's Order Subsystem, processed automatically and downloaded in the same transmission. All other types of orders are considered "Assisted History Orders."

Custom Daily Update Charges

Quantity Collected Daily		Cost Per Month of Data		
Stocks, Options & Mutual Funds	Commodity Contracts	Direct-Dial	U.S. & Canada Network & Telenet via PTT	Non-U.S. via Tymnet or Sprintnet
50	5	\$ 12	\$ 22	\$ 37
100	10	25	37	62
150	15	31	43	84
210	21	36	49	91
260	26	42	55	98
300	30	48	62	105
370	37	54	69	114
440	44	59	75	127
570	57	65	82	135
700	70	70	90	156
850	85	85	105	176
1000	100	100	125	188

A 10% discount applies to U.S. network & direct dial users who regularly call between 7 p.m. and 8 a.m. eastern time. If a portfolio contains a mix of stocks, mutual funds, options and futures, please use the stock/option/mutual fund column and count each commodity contract as equivalent to ten stocks. For quantities between any contiguous pair from the 100 stock category and higher, add \$2 per contract or group of ten stocks (\$5 for 50 stock category) up to, but not exceeding the next higher price. Additional charges apply for accessing more than 26 days during a billing cycle.

Ask Customer Service:

Last month this column discussed the important year-end file maintenance required for updating continuous contracts into 1994. This topic takes on a new importance for those users who have not yet received QuickTrieve version 4.05 (for automatic extension) or who do not plan to upgrade, but haven't yet prepared their files. For the sake of all who missed the January 3rd file-extension deadline, this month's column addresses what to do if you didn't prepare continuous files for 1994.

Q. *Help! All of a sudden my Perpetual Contract and stock files are not updating when I call for data. The data listing says NOFL, which means there are no files for these contracts, but I updated them just last week.*

A. The problem is that you are trying to update files that ended December 31, 1993 with 1994 data. There is simply no more room in the files. This situation can occur when using QuickTrieve version 4.0 or earlier, or when users of later versions say (N)o to autocreation of new files during updates.

This problem can exist for any continuous data file, including stocks, indexes, cash, nearest futures and Perpetual Contract data. QuickTrieve's Move/Split a Data File (Move a contract file on version 3.1) will help you extend your files.

The file extension process is much easier with QuickTrieve 4.01 through 4.04 than with previous versions. These later releases can autocreate all necessary files in a single run. They can also automatically create new data directories when the limit of 120 files is reached.

To begin, select <H> from the QuickManager® Menu. A list of your files will be displayed. Press the letter designator of each continuous file ending in 1993. When finished, press <F3>.*

You will be asked if you want to create files for all items or just those not existing on your target path. Say (A)ll. You will be shown each selected file and will be asked if you want to change the beginning or ending date of each. Answer (Y)es. Change the ending year for each item to 94. You may substitute 95 or 96 as desired to avoid doing this next year, but be aware that this practice tends to waste disk space and will be unnecessary when you upgrade to a later

QuickTrieve version.

When finished, check your new files to see that the data was transferred properly. If the new files are O.K., you'll probably want to delete the original files using Delete data file from disk.

You'll need to re-collect any missing days from 1994 to update your files. Your CSI bill will show an extra-access surcharge if you retrieve more than 26 days in a billing cycle.

*The <F3> feature is included in version 4 series QuickTrieve only. Users of prior releases must move each file individually as directed through screen prompts.

Q. *I collected and distributed my daily updates, and all the data went into files. When I tried to plot my updated data, some of the graphs ended with December 31. Where are my 1994 prices?*

A. If you look a little more closely, you'll probably find that the files with the missing data are continuous, ending in 1993. You'll also find a new set of files for the same series ending in 1994. You must be using QuickTrieve 4.01 or higher with file autocreation to experience this scenario.

If you try to plot your new files, you'll find that they hold only the updates you have collected since January 3rd - not very useful.

We recommend combining your 1994 data with past data using the procedure described above. After transferring your 1993 data into your new, larger file, you'll need to transfer your 1994 data there as well. After checking for proper transfer, delete the original 1993 and short 1994 files. ♦

QuickTrieve 4.05 It's Here!

We began filling the backlog of orders for our new QuickTrieve version 4.05 in mid December. Thanks to all of you who waited so patiently for this software. If you ordered, but have not yet received your software upgrade, please bear with us a little longer. We expect to have all orders filled by early January.

Users of QuickTrieve 4.05 will not need to manually extend continuous data files into 1994, as the software will handle this automatically. Please see Ask Customer Service for ideas on what to do if your 4.05 hasn't reached you in time to avoid manual file extension. ♦

Drastic Price Cuts ... (continued from page 3)

very low. This type of data is therefore provided at our lowest rates.

To further simplify our entire history pricing schedule, we have set equal prices for stocks, options, indexes, mutual funds and commodities, including Perpetual Contract® data. This results in significantly lower prices for both on-demand and assisted orders.

We have also reduced the rates for custom daily-update portfolios. Our new prices will allow traders who follow stocks, options and overseas

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CSI Software Product Summary

- QuickTrieve®/QuickManager®** for PC - To retrieve, manage & edit data; Unrestricted use \$99, Daily data user \$59 and 4.05 Upgrade \$29
- QuickPlot®/QuickStudy®** for PC - Charting & analysis software (requires QT/QM) \$99
- Trade Data Manager™** - Macintosh downloader & accounting program \$59; upgrade \$49 or *FREE* with \$100 history order.
- Trading System Performance Evaluator™ (TSPE)** for PC - Computes your system's capital requirements \$199
- Trader's Money Manager™** for PC - Introductory price \$499 (includes TSPE)
- TraDesk™** for PC - Traders' complete accounting system-(price varies with number of accounts) Starting @ \$399/Unrestricted use \$299/Daily data user or 12-month lease starting @ \$22/Mo.
- Seasonal Index Value Pack** for PC - Ten years of history for 33 popular commodities \$444
- Daily Updates** for PC - Starting at \$10.80 per month
- CSI Technical Journal** - Aug. 1990 to present \$35/Yr. or \$5/Reprint
- CSI Mailing List** - \$200/1,000 names (CSI users omitted)
- CSI Product Catalog** - *FREE*

NAME _____

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USER ID# _____

DISK PREFERENCE

- 5.25"/360K 5.25"/1.2 MB (HIGH DENSITY)
 3.5"/720K 3.5"/1.44 MB (HIGH DENSITY)

- CHECK MASTERCARD VISA

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CARD # _____

EXP. DATE _____

SIGNATURE _____

1/94

All prices subject to change without notice.

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