

CSI TECHNICAL JOURNAL

DATA ♦ SOFTWARE ♦ SERVICE

Volume XIII, Number 2

February 1997

\$10.00

In This Issue

Market Data: Not Just Silicon Bytes, But Gemstones In The Rough ..1

Market Statistics Update & IPOs 3, 4 & 5

1997 Commodity Alerts Calendar Now Available5

Product Summary6

Editor: Sabrina Carle
Publisher: Commodity Systems, Inc.
Layout/design: Moran Advertising, Inc.

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. ALL RECOMMENDATIONS ARE PROVIDED FOR THEIR INFORMATIONAL VALUE ONLY.** Readers should consult competent financial advisors or outside counsel before making any trading, software purchase, or investment decision. CSI does not stand behind or endorse the products of any outside firms.

Advertisement Enclosed: We have enclosed an advertisement for "The Trader's Guide to the Internet" offered by Michael Valtos

CSI accepts advertisements to accompany our Technical Journal for the sole purpose of defraying postage costs.

Copyright © 1997 Commodity Systems, Inc. (CSI). All rights reserved.

Market Data: Not Just Silicon Bytes, But Gemstones In The Rough

Faster and faster and faster they come. Bits and bytes and megabytes of market data are transferred at higher rates and in greater bulk than ever before. Somehow in all the recent hullabaloo about getting the most data in the least time, many traders have lost sight of how precious and rare good market data really is. Like gemstones in the rough, raw market data must be examined and refined to attain its greatest value.

The CSI database staff expertly applies the gemstone rules of cut (removing errors), clarity (resolving inconsistencies), color (assuring full diversity of markets) and carot (size and scope of data resources) to produce the most accurate, complete daily data feed available.

Members of our database staff use their expertise (acquired through many years of experience), along with high-tech tools to detect and correct the many inherent data flaws that could interfere with concise analysis.

A second, less common step in refining market data involves formatting the high, low and settlement prices of commodity data such that they most accurately reflect your trading environment. Only users of Unfair Advantage® have the luxury of polishing their data in this way. Before settling on a procedure, traders must understand what the term *settlement price* represents.

Unlike security closing prices, the settlement price in the futures arena is

not necessarily the last trade price. Each day following the final bell, a committee meets to establish the settlement price. They focus on the time and price of the last trade, the last bid and ask, and pricing information on more

active nearby delivery months. Very often, the last consummated price is used for the settlement, but if trading was not continuous for a given contract and the last trade was not time-wise correlated with nearer delivery months, more judgment is introduced.

The resulting settle-

ment may lie outside the high-low range, which can lead to confusion among traders and analysts as to how the true high, low and settlement should be represented.

Users of Unfair Advantage can display data in their choice of 1) the true high, low and settlement (settlement prices may exist outside the trading range), 2) an adjusted high/low with true settlement series (highs and lows may be adjusted to encompass the settlement price where no trading took place) or 3) adjusted closes (settlement prices may be adjusted to fit within the high/low range). These options further clarify your data by letting you choose the presentation that injects the least distortion into your analysis technique.

(continued on Page 2)



“The broader the spectrum of markets followed, the better perspective a trader has on the world’s economy and its diverse market places.”

Market Data ...

(continued from page 1)

Step three in honing raw market data into a thing of beauty involves the scope of markets presented. The broader the spectrum of markets followed, the better perspective a trader has on the world’s economy and its diverse market places. Your perspective is colored by the scope of commodities tracked by your trading system. The 700 to 800 symbols quoted daily in the full Unfair Advantage data base give the trader the opportunity to find those golden trends on which fortunes are made.

Computed Contracts

The cleaned and processed data received from CSI is still considered raw input for various analysis tools such as CSI’s Perpetual Contract® data, nearest futures and back-adjusted contracts. Many traders prefer to calculate computed series such as these before attempting further analysis techniques.

Perpetual Contract data is a single, continuous data set that focuses on a constant period forward for a given commodity. An important advantage of this formula is that statistical stationarity is closely approached because the contract birth and death process, inherent in the commodity markets, is removed. The term “stationary” is used when the data’s mean and variance remain constant. Stationarity is particularly helpful when analyzing a historical time series.

Perpetual Contract data eliminates most of the problems a trader might face in analyzing individual, raw futures contracts. The most notable exception is that the user must choose an actual contract upon which to apply the signals derived from the Perpetual Contract data. Market synthesis and simulation for Perpetual Contract data can be readily accommodated with few compromises. There is no long-side bias other than inflation (which is present in both continuous

and actual data). Perpetual Contract data works well with short-term and longer term trading. Users of QuickTrieve® can download Perpetual Contract data directly from CSI, whereas Unfair Advantage users can calculate custom series automatically from source data stored on your hard drive.

Many traders favor **back-adjusted continuous** contracts for long-term analysis. Because these series use unadjusted prices for the current contract, they offer a distinct advantage in very short-term trades. This would be approximately one to several days before the series you have committed to follow rolls into the next contract (a rather dizzying pace). Many traders do not realize that this type of data has a very significant inherent bias favoring long positions that is due to inflation.

Another drawback of back-adjusted continuous contract data is that such data cannot be stationary. The cyclic time to delivery which alternates from zero days to several months for each contract visited over the life of the commodity conflicts with the general requirements of statistical stationarity. This phenomenon causes problems in long-term market synthesis and simulation of historical data because volatility alternates from active to tame. **Back-adjusted continuous series** can be calculated automatically from source data in Unfair Advantage, making it unnecessary to purchase them from CSI.

The “**nearest future**” series produce a trading record built on many real contracts, with the cyclic contract birth and death process remaining in place. The formula does not introduce an artificial bias favoring long positions, however it does have a serious limitation of its own. Nearest future contracts have a step-function jump or drop in price which interrupts the otherwise smooth transition one must manage

Market Statistics Update

from one contract to the next. Simulated trades derived from this data must be removed or adjusted near rollovers.

Too Much Stone Cutting?

The flaws mentioned here beg the question, "Does the use of artificial market data invalidate simulated trading results?" On one hand, it can be misleading to project future performance based on artificial data. On the other hand, misleading conclusions can be avoided if simulated results are handled properly.

Since Perpetual Contract and other types of computed contract prices are artificial, simulated trading results don't exactly mirror actual trading. Simulated profit projections derived from such data should therefore be corrected to a certain extent. This punctuates the necessity for the nature of all data to be disclosed.

As I see it, there are other more serious reasons why any simulated performance is misleading. Mechanical trading systems, for example, are based on several parameter settings. On a hindsight basis, each parameter that controls trade timing is a source of misleading profit projections and will inhibit the trading system's actual performance. Simulated profits must be degraded to compensate for the hindsight bias. If used properly, artificial market data can be a powerful analysis tool for uncovering repetitive market behavior.

As the focus in market analysis moves more into quantity than quality, it is important to remember that without quality data, there can be no meaningful analysis. Just as a flawed gemstone is not pleasing to the eye, neither does flawed data produce pleasing results in the markets. Pay attention to the cut, clarity, color and scope of your data. Look for golden trends, and reap the rewards. ♦

Bob Pelletier

DELETIONS FROM THE STOCK DATA BASE

8664	FOFFQ	50 Off Stores Inc
2906	ANMRW	Advanced NMR Systems Inc Wt
8124	ARMR	Armor All Products Cp
2153	ARYTF	Aryt Industries Ltd
7026	AUG	Augat Inc
1021	BLH	Bankers Life Holding Cp
7834	VMG	Banyan Mortgage Investment Fund
14599	BFBAX	Bayfunds Bond Ptf./Insl. Shrs
14600	BFBPX	Bayfunds Bond Ptf./Investment Shrs
14601	BFEAX	Bayfunds Equity Ptf./Insl. Shrs
14602	BFEPX	Bayfunds Equity Ptf./Investment Shrs
14607	BFSAX	Bayfunds Short Term Yield Ptf./Insl. Shrs
14608	BFSTX	Bayfunds Short Term Yield Ptf./Investment Shrs
1696	BETT	Bettis Cp
8212	BIGB	Big B Inc
8305	BPRXL	Bradley Pharmaceuticals Inc Cl D Wt
7078	CAL	Cal Fed Bancorp Inc
13036	CRA	Capital Realty Investors Tax Exempt Fund L.P. Series I
13037	CRB	Capital Realty Investors Tax Exempt Fund L.P. Series II
15088	CDIO	Cardionics Systems Inc
8376	CIBC	Citizens Bancorp (Maryland)
29045	CMPDW	Compumed Inc Wt
4450	CONT	Continental Waste Industries Inc
9466	CORTW	Cort Business Services Cp Wt
3132	CLR	CST Entertainment Inc
12135	DLGX	Datalogix International Inc
7863	DUR	Duracell International Inc
15373	EMED	Euromed Inc
18316	EVGMP	Evergreen Media Cp Conv. Exch. Pfd.
8650	FMLY	Family Bancorp
5396	FRM	First Mississippi Cp
7214	FSI	Flightsafety International Inc
29029	FORLL	Foreland Cp Wt
29321	VITKU	Futurebiotics Inc
1695	GWLD	Gaming World International Inc
29271	GWLDW	Gaming World International Inc Cl A Wt
6932	GENIZ	Genetics Institute Inc
29076	GNSAR	Gensia Inc Rt
29075	GNSAW	Gensia Inc Wt
29034	GENZZ	Genzyme Cp '96 Wt
9094	GMIS	GMIS Inc
1848	STON	Greenstone Industries Inc
29305	STONW	Greenstone Industries Inc Wt
7914	INF	Infinity Broadcasting Cp Cl A
15043	OVENQ	Italian Oven Inc
2428	JBNC	Jefferson Bancp (Miami Beach, Florida)
29008	KRUGW	Krug International Cp Wt
6866	LXEI	LXE Inc
3377	MEM	Mem Co
2614	MFST	MFS Communications Co
2193	NEOSQ	Neostar Retail Group Inc
9300	NIIS	New Image Industries Inc
9327	NSBK	North Side Savings Bank
18352	ONBKP	Onbancorp Inc Cum. Conv. Pfd. Series B
7499	PRHB	Pacific Rehabilitation & Sports Medicine Inc
3435	PYB	Partners Preferred Yield Ii Inc Series A
3436	PYC	Partners Preferred Yield Iii Inc Series A
3434	PYA	Partners Preferred Yield Inc Series A
8931	PFWA	Pet Food Warehouse Inc
2690	RHD	Rhodes Inc
13049	HLK	Salomon Inc 5 1/4% Hwp Common Equity Linked Elks)
9644	SPCO	Software Publishing Cp
1084	SWP	South West Property Trust Inc
12025	STHC	Stat Healthcare Inc
2923	SUDS	Sudbury Inc
5097	TEN	Tenneco Inc
11314	TPD	Thrifty Payless Holdings Inc Cl B
9608	TREX	Transnational Re Cp Cl A
12900	TLIC	Transport Holdings Inc Cl A
9246	UNSW	Union Switch & Signal Inc
12973	VNGD	Vanguard Airlines Inc
8392	WLDN	Walden Bancorp Inc
9941	WBAT	Westport Bancorp
9946	WFRAF	Wharf Resources Ltd
8228	ZNXS	Zynaxis Inc

