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## Breakout - The Technical Trading Gem You Probably Didn't Know You Had

Did you know there is a numerical technical analysis module tucked away in your QuickTrieve® software system? It is there, under QuickManager's® "Enter Analysis Subsystem" menu. The next time you have a moment to work with QuickTrieve, instead of choosing the more popular QuickPlot® module, select *B) Run Tech Analysis* to execute BREAKOUT. You will find a rare gem.

Letters keep coming in as this simple, non-graphic tool is discovered by users along the way. "Your Tech Analysis program performs better than any system I have ever purchased. I follow the signals every day," wrote one BREAKOUT user recently. This is typical of the mail we get about BREAKOUT.

BREAKOUT was originally conceived as a means to introduce BASIC programming to our users more than fifteen years ago. We formally describe the program as Tech Analysis, because we had thought we would add other tools to the list. From a more descriptive standpoint, it actually adopts a form of breakout logic. Breakout means breaking out of an N-day high-low trading range (the trading window).

Many will recognize BREAKOUT by the number of parameters consumed: One! That's right - only one parameter

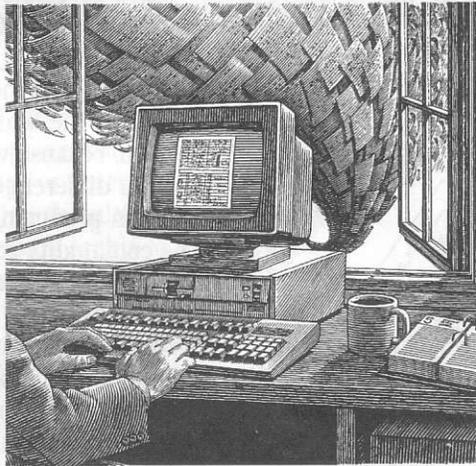
(N) is used by this system. It is the number of days the system looks backward in time (the window size) to determine if significant market direction warrants reversal. The window size is the value of N.

In hindsight, through the addition of more parameters, it is simple to control both desirable events (large profits) and undesirable events (large losses), but always at the risk of future uncertainty. Excess control also adds to your broker's commission tab and the market slippage which accompanies every trade. In

BREAKOUT, we forego excessive hindsight control in favor of better signals for current trading.

BREAKOUT holds a table of markets sorted by CSI's commodity number assignments. Each market is identified with the critical lone parameter, N, which the user may modify. Our manual warns that we had only carefully checked the N-day settings for the currency markets and that no attempt was made to satisfy the needs of other markets. Although the currency settings may still work well, no values of the N-day periods included in the software have been changed in more than a decade. They could probably benefit from a little testing

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## CSI's Mid-Range Opening Prices

Several times a year our Data Base Manager is asked why CSI's opening commodity prices do not match those of the Wall Street Journal. This is such a common question that we feel a comment is in order.

The Commodity Data Base Fact Sheets describe the CSI Opening Price calculation as follows:

"The opening prices shown in the CSI data

base are likely to be different from those quoted in the Wall Street Journal, because we adopt a different technique in producing them. The commodity exchanges usually report an opening range which is very often the opening bid and ask prices. The WSJ may report one side of this range for the opening price, sometimes without regard to whether the given price is within the daily

trading range. At CSI, we average the range of prices

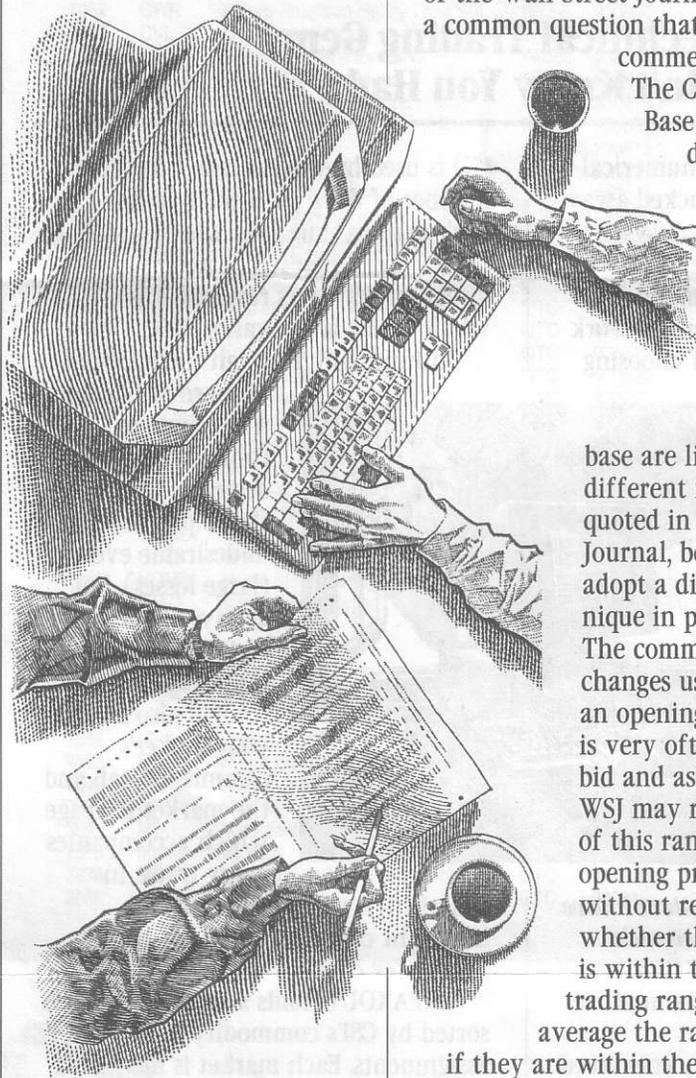
if they are within the high and low for the day. If one of the prices is outside the opening range, then the opening bid or ask price is adjusted so that both prices lie within the high and low range for the day. The "outside" bid or ask is replaced by the appropriate low or high, respectively, before averaging takes place. This correction removes fictitious data points where trades could not have occurred, and averages the resulting range to give an unbiased estimate."

Many years ago, as we formulated the specifications for the MARSTAT

Data Base, we concluded that the way the Wall Street Journal quotes the open price for commodities was not adequately representative of the actual opening trades. The opening range may represent hundreds of trades occurring over several minutes, whereas the reported first-trade price (be it bid or ask) may only reflect a single trade with a volume of one. Besides under-representing the pricing possibilities, the Journal's method of reporting was apt to include an unexecuted bid that was outside of the day's trading range - a definite no-no for technicians of the day.

The opening price is viewed by active traders to see if they got a good fill and by technicians as part of a historical record for synthesizing market behavior. In either case, no one knows whether the stated open price reflects an offer to purchase or sell or an actual fill. To blindly accept the first trade of the day, as many services may believe they require, is not the best way to certify actual fill experience or to simulate hindsight performance. Our choice - taking the midpoint of the open range - is, in our opinion, the best way to report a representative opening price.

We sometimes wish we had followed the Wall Street Journal in quoting either the bid or ask portion of the opening range, as most newer data vendors have done. Not because it would serve our users better, but because it would silence the critics. Fortunately, these are only momentary lapses; In the opening price debate, we will continue to eschew that which is considered "normal" in favor of that which is better. ♦



## What's on the Drawing Board

Here is a review of the projects under development at CSI. Watch this Journal for updates on our progress.

### QuickTrieve version 4.05

*Estimated release date:* November 1, 1993

This long-awaited QuickTrieve upgrade offers many major enhancements for CSI subscribers. It is virtually completed and is in Beta testing now. The most significant enhancements are:

■ **On-line history on demand:** This means instant processing of historical data orders 24 hours a day, seven days a week!

■ **Automatic file extension:** Data files will be extended automatically, either forward or backward in time, to hold all collected data. (No more wasted disk space, year-end file moves or multiple files with different time periods!)

■ **Stock Constants File:** Correct names, symbols, numbers and conversion factors for stocks and indexes will be included in your files automatically.

■ **Stock and Commodity Search in Order Subsystem:** When ordering data through QuickTrieve, you can page through our lists or search by name or symbol to complete your order information. (No more fumbling through fact sheets for CSI numbers or symbols!)

■ **Improved automatic file sorting into subdirectories:** With version 4.05, you can identify which contracts and stocks are allowed to reside in each directory, and even what types of files may be included (e.g.: daily, weekly, monthly, normal files or options, etc.). It also includes several options for automatically setting these parameters. For example, the program will, if directed, create directories for all commodity groups, individual commodity groups or individual commodities. Stocks can be sorted alphabetically by individual letters or by alphabetical groups, and by stock industry groups.

■ **Other less-visible enhancements** include support of larger numbers in data files, better support of multi-layer subdirectories in CompuTrac format and many minor improvements to make data retrieval and management easier for you.

Please do not send money for QuickTrieve 4.05 now. Your November Technical Journal will include an order form for the \$29.00 upgrade (39.00 for new subscribers, overseas postage extra). Telephone orders will be accepted beginning November 1st.

### Data Compression Software

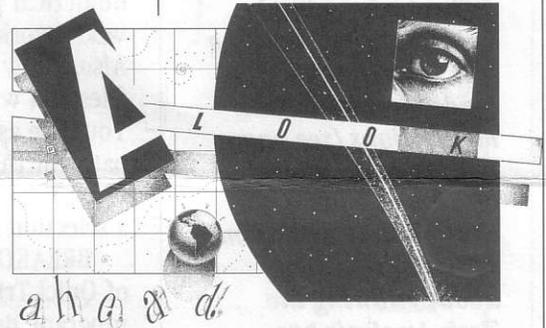
*Release date:* undetermined

Our programming staff has been working for several months on producing the ultimate algorithm for compressing archived market data. They said it couldn't be done, but we can now compress 100 megabytes of data into just 10 to 20 megabytes. Our algorithm does an amazing job of squeezing every last bit of available space from a file. We expect to use this compression algorithm in supplying historical data to our users, and perhaps in other QuickTrieve-related applications. Watch for details in future CSI Technical Journals.

### NEW Trading System

*Release date:* undetermined

A fast, multi-market analysis system is under development which expands upon BREAKOUT's superior performance. It will include the ability to investigate new N-day window size values automatically for optimal results. We also plan to show the equity progression for trading a single commodity or groups of commodities. It will improve profits and reduce drawdown by effectively trading multiple markets. ♦



## Ask Customer Service

*The BREAKOUT Technical Analysis program provided with our QuickTrieve software is a simple one-parameter trading tool that gives specific trade-by-trade recommendations (see page 1). This month's Ask Customer Service column addresses some common questions about running the Tech Analysis program.*

**Q.** *I have never used BREAKOUT. Can you give me some tips that might help me get started?*

**A.** Before starting BREAKOUT, make sure your printer is on-line with plenty of paper. The only output is a numerical printout, so the program won't work if your printer isn't ready. Also, know the location of the data files you want to test with BREAKOUT. You'll be asked to enter the drive and path for the data files (e.g. C:\QUICK\DATA), without benefit of a selection menu.

BREAKOUT is actually run outside of QuickTrieve using your own BASIC program. Before you start, you need to know what version of BASIC is stored on your computer. BASIC is part of your DOS utility package, so the version corresponds to your DOS version. BASICA was supplied with the old IBM DOS, GWBASIC was supplied with MS DOS prior to version 5.0 and QBASIC is supplied with MS DOS 5.0 or higher.

**Q.** *How do I get into the BREAKOUT program?*

**A.** From the QuickManager menu, select *L) Enter Analysis Subsystem*. Then select *B) Run Tech Analysis*. You'll be prompted to exit to DOS and type a command string to start BREAKOUT. From there, screen prompts guide you through a few simple questions.

**Q.** *I am confused about the BASIC command string I am supposed to use to start BREAKOUT. After selecting B) Run Tech Analysis and exiting to DOS, I'm completely at a loss. Please explain.*

**A.** The command string required to start BREAKOUT depends on the version of the BASIC programming utility stored on your computer.

If IBM DOS, type:  
\`DOS\BASICA BREAKOUT` then press <Enter>. When the OK prompt appears,

type:

`RUN "BREAKOUT"` and press <Enter>.

If GWBASIC, type:

`\DOS\GWBASIC BREAKOUT` then press <Enter>. When the OK prompt appears, type: `RUN "BREAKOUT"` and press <Enter>.

If MS DOS 5.0 or higher, type:

`\DOS\QBASIC /MBF /RUN BREAKOUT` then press <Enter>.

**Q.** *After starting the BREAKOUT program and entering the data path, the list of available files in my directory stops at 30 contracts. The directory actually holds many more files. How can I see the rest of the list?*

**A.** To see more than the first 30 files in your directory, press the letter N. You can page through the entire list this way. Be sure to note the catalog numbers of the files you want to process.

**Q.** *How do I experiment with different N-day high/low trading channels?*

**A.** When starting the program, you are asked if you want to modify the "window size" of any commodities. Answer (Y)es and you'll have the opportunity to identify the CSI commodity number and new window size (number of days to search for current high/low channel). You can experiment with different values to see which provides the best combination of profit, trading frequency and drawdown.

**Q.** *I gave BREAKOUT a 15-year historical data file to analyze, but the output table shows only the last five years. Can I evaluate a longer period of time?*

**A.** If you use QBASIC, as opposed to BASICA or GWBASIC, then you can. BREAKOUT is configured to analyze the final 1,300 trading days (5 years)

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## Breakout ...

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and fine-tuning on your part.

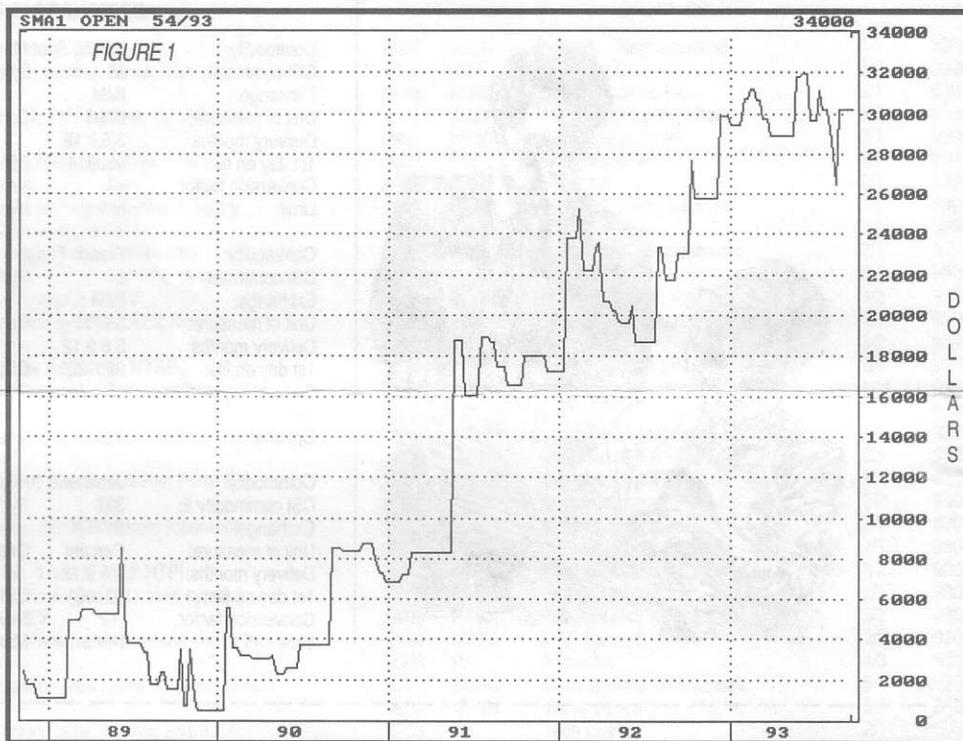
Breakout gives daily signals in a concise report, which includes an estimated profit guide and a listing of the number of trades required to attain the current profit level. The program is always in the market either long or short and it is able to sense whether a reversal fill can likely be accomplished. It does this by focusing on whether the closing price and the high or low are equal. In other words, where a limit move or low liquidity might inhibit a reversal fill, the program will assume you were unable to exit the market given the conditions represented by the data.

You'll note that BREAKOUT has no provision for stop-loss orders or for limiting drawdowns. By the same token, there is no limit to the profit you may take. Unless you are prepared to accept large drawdowns on your account, we recommend leaving a reasonable stop-loss order with your broker. Of course, this may also limit profits.

No system can claim trading perfection, but here is one that has survived a fifteen-year test of time. Try it out on paper with your favorite currencies. The result, less commission and a generous slippage allowance, should be close to what you would have earned in the markets.

BREAKOUT is a testament to the fact that a great trading system doesn't have to cost a lot; It doesn't have to be complicated or require a multitude of rules to work. Paper trade BREAKOUT and learn first hand why users find it so interesting. ♦

*Bob Pelletier*



5-year weekly equity curve for BREAKOUT, the free Tech Analysis program supplied with QuickTrieve. Results are based on equity at the time of each recommended trade. No adjustments have been made for slippage, which would degrade profits by 10 to 15%. While past performance does not suggest future results, the above chart is based upon a single input disclosed to CSI users more than a decade ago.

### Ask Customer Service

(continued from page 4)

of any file. To expand this limit, use your personal editor to replace the two references to 1300 on line 116 of the BASIC source code with the number of days you wish to examine. Note: BASICA and GWBASIC will not run with this change.

**Q.** Can BREAKOUT make a graphic display of my equity curve?

**A.** No. The above chart (see Figure 1) is not an output of BREAKOUT. We created it for demonstration purposes by manually entering the equity values into an artificial QuickTrieve data file and charting it with Quick-Plot. It is not necessary for traders to make this chart, as BREAKOUT's numerical output provides all this information - and more. ♦