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April 1996

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\$10.00

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

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Bob Pelletier is concentrating bis efforts on engineering and implementing enhancements to CSI's data delivery system and is taking a brief sabbatical from writing this Journal. During this break, we will offer encore presentations of some of our readers' favorite CSI Technical Journal articles. The following is a reprint, with a few minor changes, from the September, 1994 issue.

An Official Guide to Trading System Design (Part I) (A Practical Procedure for Mining Market Profits)

More and more traders are discovering that the only path to market success is through a well designed and implemented trading system. The best of these address a diverse set of markets and technical disci-

plines. Unlike the single-market fundamentalist who might argue that a diversified portfolio can't be sufficiently researched or managed, technicians with a thoughtful plan can easily navigate the well-charted waters.

In this and the following two CSI Technical Journals, we'll present a variety of considerations for investors interested in planning, designing and implementing a trading system. Thus, we consider this a practical guide for mining market profits.

Futures markets, unlike blue chip stocks, do not pay dividends. This is among the reasons why futures trading takes a level of skill beyond that required for the average stock transaction. Nevertheless, many larger commodity funds, complete with stiff fees and heavy profit sharing, consistently make profits. In fact, some investors in particular segments of the futures industry log profits on a regular basis. A plan can help you join this minority.

The Planning Process

The first step in the planning process is to aim for

success. If you are wondering if there is any hope of profit for the futures and stock

market trader, the answer — in your own mind — has to be "yes." Know that even

without outside help and influence or insider information, you, too, can succeed. A well-structured plan is

often the key. This month's installment will help you structure that all-important plan.

As you might imagine, we believe that a trading system for generating explicit buy and sell signals is integral to every trading plan. We'll discuss various trading systems and their uses in the next two installments of this article. Before getting into that area, there are important factors that must be considered for plan development.

The Broker Tax

Let's start by acknowledging the truth in the rumor that brokers make a good profit regardless of their clients' success. Investors using the New York and Chicago markets support a huge complement of brokers and floor traders. These professionals

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When considering any new position, your plan should include investigating the three alternatives:

1) Buying or selling a given futures contract, 2) Buying puts or calls on the contract, and 3) Writing puts or calls on the contract.

perform a needed service, assuming risks and expenses that justify their fees. Each time a trade is consummated, there is a broker's fee, the floor broker's fee, the exchange fee and a slippage charge represented by the bid/ask spread.

In the absence of a disciplined plan, losses often equal your commission bill plus the market-fill slippage, which I consider to be the unquoted commission. This is no coincidence; It is common for anyone playing a zero-sum game. The "house take" in Las Vegas is what we pay to play the game. In trading, the "house" is the exchange itself and those who work to implement your trades. Their take, which boils down to the trader's total commission bill, can make the difference between a losing or winning trading record.

You should definitely plan to limit these expenses. The proper way to reduce these charges is to trade less and give your full trading plan a chance to work. Making infrequent trades is a strategy many successful traders have come to appreciate. Not surprisingly, the trader is encouraged by the commission merchant to trade with great frequency. It is an invitation we suggest you respectfully decline.

Position Trading, Spread Trading and Intermarket Analysis

Every trading plan should explore position trading, spread trading and intermarket analysis. Position trades, which may be held anywhere from a few days to several months, involve buying or selling contracts based on the anticipated market direction. It is typical that they are independently selected and are not paired with an opposite position in a complementary market, as in a spread. Because there is no hedging involved in a position trade, the "naked" position trader stands to make great profits if his

projections are correct. Of course, the flip side of this is greater losses when the market turns against him.

The spread trader, on the other hand, pairs his long positions with short ones, attempting to profit from the change in price relationships. A spread trader might trade different delivery months of the same commodity, or the same months in different, substitutable commodities. The possibilities for spread positions are almost limitless. In a spread trade, the commission and margin expense are generally lower than if the two positions were taken independently, and the potential for both profit and loss are diminished.

Intermarket analysis can involve analyzing markets that have been paired either according to their similarity or their diversity. It is a curious fact that trading a pair of negatively correlated systems, one a winner and one a loser, can generate a greater profit per dollar at risk than trading the winning system alone. The secret lies in the profit summation over time. The capital required for the negatively correlated pair (the winner plus the loser) can be much less than the capital required for just the winning system. In this example, required trading capital is defined as the maximum level of drawdown computed as the maximum peak-totrough loss.

Futures or Options

When considering any new position, your plan should include investigating the three alternatives: 1) Buying or selling a given futures contract, 2) Buying puts or calls on the contract, and 3) Writing puts or calls on the contract. Given a situation for market entry and the fees, commissions, information costs, risks, rewards, premiums and market volatility for each of these three possibilities, one

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Ask Customer Service

Each month in this column we discuss a topic of interest to many CSI subscribers. This month, we offer suggestions which we hope will enhance communication between our staff and our valued customers.

Holiday Schedule

CSI will be closed for voice communication on Friday, April 5th. The host computer will be operational for updates throughout the holiday weekend and price quotes will be available at normal posting times for those markets that remain open. The office will re-open as usual on Monday, April 8th.

Q. I do most of my analysis late at night when the CSI staff is not available to answer questions or listen to my suggestions. What is the best means for communicating with your staff during off hours?

A. For very brief questions and comments, QuickTrieve's Order Subsystem offers a communications vehicle that is quick and easy. Use the Send a Message to CSI feature and then transmit the note with your next update or by selecting D) Send work done this session. Our staff will read your note when we review our mail in the morning and assist you as necessary.

Q. My needs far exceed the few lines available for sending a note through QuickTrieve's Order Subsystem. How else can I communicate with your staff when the office is closed?

A. The Internet's E-Mail facility is fast becoming the interface of choice for communicating with CSI. We have several new addresses for directing your correspondences. They are:

techsupport@csidata.com for customer service

rudi@csidata.com for the customer service manager (Rudi Cabral)

marketing@csidata.com for the sales and marketing staff

billing@csidata.com for billing and accounting questions

comments@csidata.com for comments and suggestions

Fax and mail communications are always an option. Our fax phone number is (407) 392-7761.

A. Any internet access will do, but America On-Line, CompuServe and Prodigy seem to be the most popular. Just open your mailbox and direct your message to the appropriate address

from the above choices. Please be sure to include your name and User ID in all correspondence.

Q. Can I get other information about CSI through the Internet?

A. Yes. Our web site holds the latest commodity, stock and option fact sheets as well as current pricing alternatives for our service. You'll also find recent CSI Technical Journals online there. Our URL address is: http://www.csidata.com

Q. Do you have plans for additional Internet services?

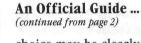
A. Yes. We have already begun servicing some customers with data over the Internet and we plan to expand this service as time goes by. We'll keep you posted in this Journal as more progress is made in this area.

Q. I often have to leave a message when I call CSI. Although someone always calls me back, I would prefer to avoid the phone tag. Any suggestions?

A. Probably the best way to avoid phone tag is to use other methods of communication whenever possible. That is, send us faxes and E-Mail, use the Order Subsystem (for orders as well as notes) and, when possible, consult our documentation for answers to your questions. We recognize that a conversation with a real person is often the best way to resolve a problem quickly, so please do call if you need us. If we are unable to take your call, domestic customers will be called back as soon as possible. Your patience and cooperation are greatly appreciated. •

Market Statistics Update

STOCK SPLITS



choice may be clearly superior at a given time. All three alternatives will produce a profit if the market goes in the projected direction. Only one of the alternatives has a maximum return/risk ratio.

Asset Allocation

No plan will be complete without an asset allocation method. We suggest one that would trade off asset return with risk for every market. By allocating trading capital to markets in this way, you may find the most profitable result with the least overall risk. Please see CTJ1192 and CTJ1292 for a review of the efficient frontier that was first introduced by Nobel Prize winning economist, Harry Markowitz. His work has been known as Modern Portfolio Theory and the substance of the theory is the allocation of capital resources to the performing assets in a given portfolio.

Few traders possess the necessary restraint to step aside and preserve their winnings following an extraordinary market strike. We recommend that your trading plan include specific goals and provisions to hold onto your monetary rewards.

Once you have set your sights on success and laid the groundwork for realizing that success, you are ready to select or design a powerful trading system. Over the next two months, we will discuss the types of trading systems that have promising analytical merit, the evaluation of results and issues of training, testing and implementation. Please join us. •

Bob Pelletier

1740	ABRX	ABR Info Services	3/2	960220
4031	ACCS	Access Health	3/2	960301
4461	AG	Agco	2/1	960201
5937	ANDW	Andrew Cp	3/2	960307
12121	ANTR	Antares Resources Cp	2/1	960201
1332	APOL	Apollo Group Inc CI A	3/2	960301
4061	ATTCD	Auto-Trol Technology Cp	1/10	960201
8182	BANC	BankAtlantic Bancorp	5/4	960215
8192	BNTA	Banta Cp	3/2	960304
			3/2	960228
4743	BRKT	Brooktrout Technologies		
1588	CHZ	Career Horizons Inc	2/1	960223
1865	CSCC	Cascade Communications	3/2	960228
2527	CSDS	Casino Data Systems	3/2	960228
			3/2	
3113	CAV	Cavalier Homes Inc		960215
5956	CKP	Check Point Systems	2/1	960223
8351	CMFB	Chemical Fabrics Cp	3/2	960223
8375	CSCO	Cisco Systems Inc	2/1	960220
		Claire's Stores Inc	3/2	960222
7111	CLE			
4304	CMGI	CMG Information Service Inc	2/1	960205
4405	CFCP	Coastal Financial Cp	5/4	960208
6968	CMETS	Continental Mortgage	3/2	960304
6969	CYTRD	Cytrx Cp	1/4	960206
5198	DBD	Diebold Inc	3/2	960226
9553	EQMD	Equimed Inc	1/2	960205
5607	FBR	First Brands Cp	2/1	960227
8707	FGHC	First Georgia Holding Inc	3/2	960301
8712	FISB	First Indiana Cp	6/5	960216
12442	FLIC	First of Long Island	3/2	960205
8727	FSCO	First Security Cp	3/2	960216
			21.00	960220
8730	FTEN	First Tenn Natl Cp	2/1	
12115	FORD	Forward Industries	2/1	960201
6895	FMT	Fremont General Cp	3/2	960208
2070	GLBL	Global Industries Ltd	2/1	960201
2988	GVIC	Golf Ventures	1/5	960215
5912	GGG	Graco Inc	3/2	960208
12149	GSLC	Guaranty Financial Cp	2/1	960201
4436	HFFC	HF Financial Cp	2/1	960201
		Hospitality Franchise System	2/1	960215
4861	HFS			
9004	IOMG	Iomega Cp	3/1	960201
9028	JMED	Jones Medical Ind	3/2	960304
7323	KNT	Kent Electronics Cp	2/1	960304
4196	KHG	Keystone Heritage Group	4/3	960212
9110	LINZ	Lindsay Mfg Co	3/2	960223
9067	LXBK	LSB Bancshares Inc	5/4	960216
9137	MDSN	Madison Gas & Electric Co	3/2	960221
2737	GMBS	Mason Bankshares	3/2	960212
5082	MAT	Mattel Co	5/4	960304
7321	KRB	MBNA Cp	3/2	960220
12093	MEDC	Med-Design	2/1	960227
2540	NHES	National Health Enhancement	2/1	960212
			2/1	960207
12257	NSCP	Netscape Comm		
2531	NFOR	NFO Research Inc	3/2	960206
1377	FIBR	Osicom Technology	2/1	960213
9394	PMTC	Parametric Technology Cp	2/1	960301
	PNTA	Pentair Inc	2/1	960220
9405		Pentali inc	2/1	
13084	PRYA	Pittway CI A	3/2	960304
3452	PRY	Pittway Cp	3/2	960304
1758	SIGA	Sigma Circuits	2/1	960227
	SIMSD	Sims Communication	1/10	960307
3133				
12693	SBCO	Southside Bancshares	10/1	960216
4739	SBIB	Sterling Bancshares Inc	3/2	90215
4626	STRM	Stratacom Inc	2/1	960216
7320	TCI	Transcontinental Realty	3/2	960304
9817	UCAR	United Carolina Bancshrares	3/2	960208
12255	USAD	USA Detergents Inc	3/2	960212

DELETIONS FROM THE STOCK DATA BASE

2103	ADMR	Admar Group Inc
8004	AELNA	AEL Industries Inc CL A
6914	ALTC	Alantec Cp
3730	ALT	Alert Centre Inc
4601	ABCI	Allied Bank Capital Inc
3046	ART	Armatron Int'l Inc
1668	BRKB	Brooklyn Bancorp Inc

