17:8

## **Index**

```
Contango (premium markets), 107,
Adams, Charles, xiv
Alpha Financial Technologies, LLC
                                                 108, 109–111, 138, 145,
      (AFT), 146
                                                 166-167
                                            in crude oil, 108
                                             futures price in, 168-169
Backwardation (discount markets),
      107-109, 138, 145, 166-167
                                          Convenience yield 112–113
  in crude oil, 108
                                             historical (1970–1992), 112
  futures price in, 168
                                          Core returns
                                             S&P DTi and generation of,
Capital Appreciation in the Stock
                                                 105-113
      Market (Holmes), 105
                                               u different asset classes, 105–107
Chicago Mercantile Exchange (CME),
                                          Cost of carry assets, 169
                                          Costco, 107
Commitment of Traders reports, 19
                                          Crashmaker: A Federal Affaire
Commodities
                                                 (Sperandeo and Almeidi), xiv,
  basics of, 1-8
                                                 xvii
  cash and carry, 109
                                          Credit, price of, 120
  source returns of, 107-111
    backwardation or discount
                                          Dallas Women's Guide to
      markets, 107-109
                                                 Gold-Digging with Pride, The
    contango or premium markets,
                                                 (Conklin), 13
      109-111
                                          Das, Satyajit, 1, 113
                                          Depression analysis, 1929–1934, 50, 51
Commodity indexes, long-only,
      19 - 22
                                          Discount markets (backwardation),
Commodity Trends Indicator (S&P
                                                 107–109, 137, 145, 166–167
      CTI), 7–8, 40, 139–142, 148,
                                             in crude oil, 108
      174-175
                                            futures price in, 168
  building S&P CTI-based products,
                                          Distribution classes, 82, 101–102
      141-142
                                          Diversification, 123-124, 145
  component breakdown—-flat
                                          Diversified Trends Indicator (S&P
      energy, 140
                                                 DTI), xi-xii, xv, xvii, 2-3, 7-8,
                                                 15, 47, 49, 51, 69
  component breakdown-long
      energy, 140
                                             as an asset class, 76-77
Consumer Price Index (CPI), 77-78,
                                             compared to long-only indexes,
      80, 121, 180
                                                 116-118
```

198 **INDEX** 

Diversified Trends Indicator (cont.) Oversight Committee, 158 comparison of performance of to performance, 158, 160 process overview, 150 other asset classes measured within different economic profitability of on a pro forma basis, periods, 179-190 165 - 166high internal diversification, 165 components and weights, 151 during disinflationary environments, profit from futures markets' risk 71 - 74transfer processes, 166 as a fundamental hedge to stocks, profit from rising and declining 134-137 price trends, 166 returns, nature of, 115-131 time as a factor in hedge results, drawdown analysis, largest, 134-137 and generation of core returns, 125 - 131105-113long-term trends, extent of, in different asset classes, 105-107 120 reasons for, 111–113 LSM and S&P DTDosses, nature as an indicator, 81–103, 142 of, 120 and inflation, 70-71, 169-173 moving average algorithm, design calculation algorithm, 171-173 of, 115-116 moving average rule, 118-119 commodity and financial cyclicality, short position and, noncorrelation within its two 170-171major groups, 121–123, 145 exponential average multiplier short-term trends, losses due to, schedule, 171 124 - 125relationship between, 70–71 stable, 124 risk, long position and, 169–170 true diversification within its initial weightings, 151 components, 123 introduction to, 35-43 whipsaws and short-term trends, long-only index, 36–37 119 - 120weighting scheme—flat energy, selection criteria, 151 subindexes, 139 39 weighting scheme —long energy, weighting scheme, 149 38 without energy, 157 LSM as proxy for, 178–179 Diversified Trends Pro Forma and LSM component history, 130 Indicator (S&P), 160–162 Dow, Charles, 49, 82, 105, 119 methodology and implementation, 147 - 175Dow Jones AIG Commodity Index (DJAIG), 71, 152 active contract position for sector i, 173–175 eBay, 106 description, 148–150 futures market, economic Efficient market theory, 46 function of, 166-168 Einhorn, Cheryl S., 110 S&P DTI and inflation, 169–173 Environmentalism, 4–5 introduction, 147 Ethanol, 5 Extraordinary Popular Delusions methodology and maintenance, 150 - 152and the Madness of Crowds rebalancing, 153-166 (Mackay), xi

17:8

Index 199

Exxon, 108 commodity and financial cyclicality, short position and, Federal Express, 18 170 - 171Federal Reserve, U.S., 47, 119, 120, 180 exponential average multiplier Fight, Flight, and Fraud (Adams), xiv schedule, 171 Financial Trends Indicator (S&P FTI), relationship between, 70-71 40, 139-141, 148 risk, long position and, 169-170 component breakdown, 141 Intel, 18 Friedman, Milton, 120 Investability, 151 Futures market, economic function of, 166-169 Jefferson, Thomas, xiv attracting capital, 167-168 Kellogg's, 110, 169 futures price in backwardation (discount), 168 Keynes, John Maynard, 109 futures price in contango (premium), 168-169 Leverage, 9–10, 144 Liquidity, 151, 158, 167–168 risk transfer phenomenon, 166–167 Long-only commodity indexes, 19–22, 69, 70, 71, 73, 75, 76, 78, 144 Gambling, 10, 144 S&P CTI compared to, 141 General Electric (GE), 106 Ghayur, Khalid, 115 S&P DTI compared to, 116–118 Global aging, 5 Long/short futures strategy, rationale Global instability, 5 and value of, 67-80 Globex, x S&P DTI Goldman Sachs, 111 during disinflationary Goldman Sachs Commodity Index environments, 71-74 (GSCI), 7, 20, 36, 68, 69, 75, 152 and inflation, relationship 179 - 180between, 70–71 Google, 106 Long/short (L/S) indicators, 68, 73, 77 Long/short methodology (LSM), 50, 51, Hamilton, William Peter, 105 69, 76, 116-118, 125-130 Holmes, Gordon A, 105 as a fundamental hedge to stocks, HSBC, 140 134 - 137time as a factor in hedge results, **Index of Leading Economic Indicators** 134-137 (LEI), 78, 81 as proxy for S&P DTI, 176-179 Indicators and tools, 15–22 returns commitment of traders, 19 during disinflationary periods long-only commodity indexes, 19–22 without T-bills, 127 during inflationary periods rebalancing, 22 relative strength, 15–16 without T-bills, 126 sentiment, 19 during recapitulation, 129 trend following versus momentum, during recession and recovery periods, 128 16 - 19and S&P DTI component history, Inflation, 68-71 S&P DTI and, 169-173 130 calculation algorithm, 171–173 and S&P DTI losses, nature of, 120

200

**INDEX** 

Long/short methodology (cont.) Random walk theory, challenge to, short-term trends, losses due to, 45-66, 142 Rebalancing, 22, 144, 153-166 124-125 Losses, 9-14 annual, for component weights, 155 cutting, 10, 142 contract maintenance, 157-158 due to short-term trends, energy's short exemption, 156-157 124-125 monthly, for sector weights, 153 position determination, 155-156 Mackay, Charles, xi price input, 156 Malkiel, Burton G., 45-46 S&P Diversified Trends Pro Forma Modern portfolio theory, 69 Indicator performance analysis, Momentum trading 160 - 163trend following versus, 16-19 S&P DTI Moving average study measurement of trends and 150-day, 53-56 volatility, 163–165 200-day, 57-60 Oversight Committee, 158 250-day, 61-64 performance 153, 160 profitability of on a pro forma Moving average, 15, 121, 124 rule, 118–119, 142 basis 165–166 S&P DTI algorithm, design of, sectors versus components, 156 115-116 variability of component weights, unimportance of particular, 116 153-155 Relative strength, 15–16 universal, 121 Relative strength index (RSI), 15–16 Nixon, Richard, 125, 128 Rhea, Robert, 15 NOB spread (U.S. Treasury notes Richardson, Pete, 142 versus U.S. Treasury bonds) 32 Risk transfer premiums, 74, 81, 106 Noncorrelation, 121–124, 143 Rumsfeld, Donald, 1 Rydex Managed Futures Funds, 41 1-2-3 criteria, 23-24 O'Neil, William, 15 Sam's (discount wholesaler), 107, 108 OPEC, 47, 107, 179 Sentiment, 19, 144 Oscillators, 16, 144 Simulated historical results, how to interpret, 177–190 Peikoff, Leonard, 48 LSM as proxy for S&P DTI, 178–179 Position determination day (PDD), 40, Spanish Armada, xiv 155 Specialist system, 167 Premium markets (contango), 107, Standard & Poor's (S&P) 108, 109-111, 138, 145, 166-167 Commodity Index (SPCI), 180 futures price in, 168-169 Commodity Trends Indicator (S&P in crude oil, 108 CTI), 7–8, 40, 139–142, 148, 174-175 Queen Elizabeth I, xiii-xiv component breakdown-flat energy, 139 Random Walk Down Wall Street, A component breakdown-long (Malkiel), 46 energy, 138

17:8

201 Index

Diversified Trends Indicator (S&P 200-day, 57-60 DTI), xi-xii, xv, xvii, 2-3, 7-8, 250-day, 61-64 15, 47, 49, 51 Starbucks, 18 as an asset class, 76-77 Stochastics, 16 compared to long-only indexes, "Stocks of Staple Commodities" 116-118 (Keynes), 109 comparison of performance of to Swap & Derivative Financing (Das), other asset classes measured 113 within different economic Tactical and Strategic Value of periods, 179–190 components and weights, 148 Commodity Futures (Erb and Harvey), 22 during disinflationary environments, 71-74 Texas Hold'em, 10-13 as a fundamental hedge to stocks, Trade activity date (TAD), 155, 158 133-136 Trader Vic-Methods of a Wall Street and generation of core returns, Master (Speranceo), xvii, 7, 12, 105 - 11323, 24, 25 as an indicator, 81-103, 144 Trader Vic II—Principles of and inflation, relationship Professional Speculation between, 70–71, 169–173 (Sperandeo), xiv, xvii initial weightings, 149 Traders Guns and Money (Das), 1 introduction to, 35-43 Trends changes in, 23–24 and LSM component history, diversified, 81 130 Trend following LSM as proxy for, 178–179 methodology and implementation. as a challenge to the random walk 145 - 175theory, 46-47, 142 Oversight Committee, 158 versus momentum, 16–19 performance, 158, 160 Trendlines, 24–25, 144 2B rule, 23-34, 144 process overview, 150 defined, 25 returns, nature of, 115–131 selection criteria, 150 long-term charts and, 30 subindexes, 129 spreads and, 32 weighting scheme, 149 Diversified Trends Pro Forma U.S. Treasury notes versus U.S. Treasury bonds (NOB spread), Indicator, 160–163 Financial Trends Indicator (S&P FTI), 40, 139-142, 148 500 Index, 81-82, 180 Volatility, market, 77 predictive value of, 82 Volker, Paul, 120 Goldman Sachs Commodity Index (GSCI), 7, 20, 36, 68, 69, 75, 152, Whipsaws and short-term trends, 179 - 180119-120, 124 moving average study 150-day, 53-56 Xerox, 18

Attle://www.phookshop.com

Attle://www.phookshop.com

Attp.//www.bhookshop.com

Attp://www.phookshop.com

Attp://www.phookshop.com