

If You're Reading This, It Didn't Happen

Will this article see the light of day, or is writing it a final burst of rank speculation before the apocalyptic tide of millennial destruction? Who knows? Just in case, the data are real, even if nothing else is.

Ten years ago, who could've even spelled "Y2K," let alone conjured up some of the doomsday scenarios thrown at us, most of which devolved into shifting the site of New Year's Eve parties to corporate data centers? For that matter, who really was ready for the technological onslaught the recently expired 1990s produced?

Forever Upwards

The futures and options industry may have been a little slow on the uptake in this regard, but no more. A recent visit to a special corner of the Futures Industry Association Expo not open to the general public provided this correspondent with a sneak preview of the revolutionary TukkusTrader2000™ as well as an exclusive interview with its charismatic émigré inventor, Dr. Marcel De Prok...

FM: This doesn't look like a normal hand-held Internet device. Is it digital?

De Prok: Oh, there are some digits involved all right!

FM: But there are no buttons or keyboards.

De Prok: Wouldn't be able to use them, anyway.

FM: What does it do?

De Prok: Well, the CFTC has been after the exchanges for years to improve the audit trail for pit trading. Remember all those FBI stings?

FM: Sure do. Weren't the exchanges supposed to come up with some sort of hand-held device?

De Prok: They tried. Went over like a lead balloon. How could a floor trader make all of those gestures while holding onto those things? Way, way, too cumbersome and expensive. We needed to eliminate the hands part.

FM: What about voice recognition? Couldn't floor brokers be equipped with headset mikes?

De Prok: What, and have everyone look like Madonna down there? Besides, we couldn't make a microphone durable enough, and there were words the software couldn't interpret well.

FM: Bummer. [Hefting the TT2K around in our hands] This is a pretty compact piece of equipment. Isn't it going to be easy to lose or misplace?

De Prok: No chance! [Flipping the TT2K open to reveal Velcro-lined panels and a set of umbrella-like ribs] This baby's staying put! Comes in two sizes, Regular and French. [Self-satisfied smile] Compliance departments have been dreaming about this for years. The lawyers have already sniffed out all the problems.

FM: How is the data retrieved?

De Prok: The oldest form of downloading in the books. An audit trail on demand, you might say.

FM: If there's a download capability, isn't there an upload mode as well?

De Prok: Of course. Just think of the number of clerks and runners we can replace. Got to reduce that head count, you know. Direct to the floor order entry. And now, instead of complaining about bad fills...

FM: What will the TV cameras do when they need a picture of trading floor chaos?

De Prok: [Taking a small cellular device out of his jacket pocket] This red button is the media hotline. One shot, and they'll get all the jumping and waving they need.

FM: You'd give one of those to Maria Bartiromo?

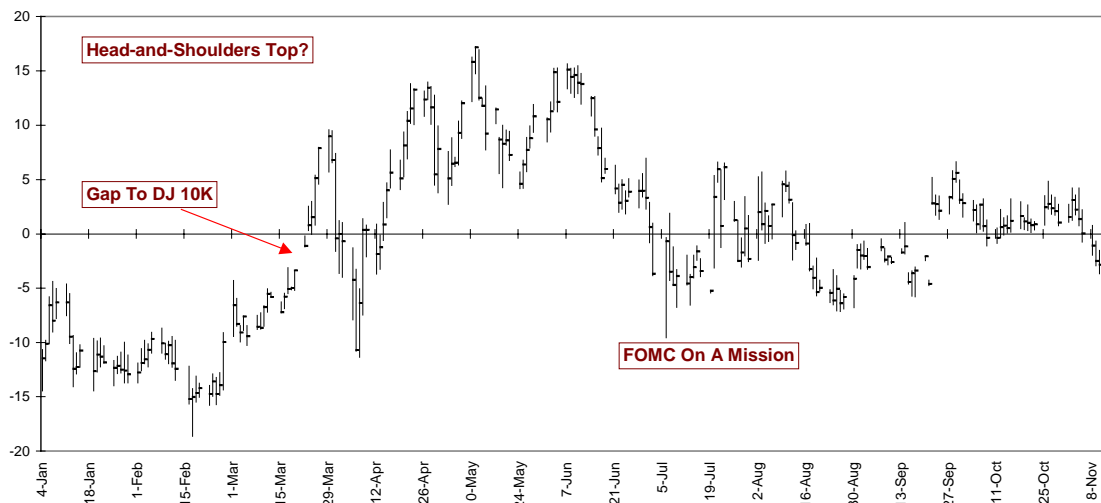
De Prok: Who better?

FM: How'd you come up with all of this?
 De Prok: The process of elimination.
 FM: Wow. I guess this is the best way for floor traders to participate in the 24 / 7 markets of the future. Do you plan to introduce these publicly by having a celebrity or industry figure ring the opening bell?
 De Prok: Oh, no! Think big, man! You know how these exchanges have been at each other's throats for years?
 FM: Yeah...
 De Prok: Wouldn't you buy a ticket to see them "introduce" this product to each other in a final salute to – how shall we put this? – open outcry?
 FM: No, we get press passes! Should be a great story to cover, though. The TT2K should be a real hot item for sure.
 De Prok: Once the market warms up to it.

Return To Forever

For the past three January issues, we have presented the once and future master-of-the-universe trading indicator, the oats/notes spread. For those of you unfamiliar therewith, simply subtract the front-month Ten-year notes contract from the front-month oats contract using the decimal equivalent of both. The 1999 oats/notes spread is seen below.

The 1999 Oats/Notes Spread



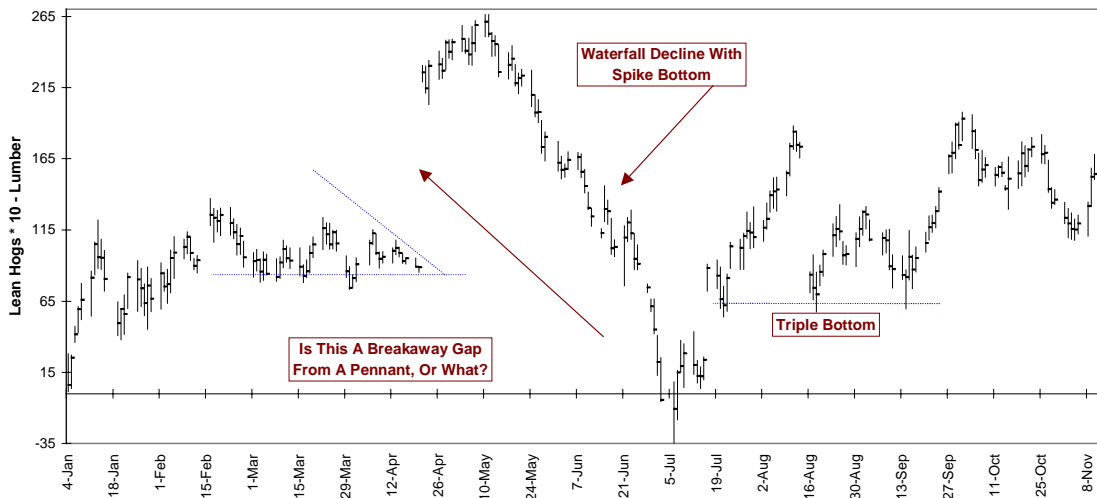
Well, it's time to stop beating a dead horse, much less feeding it otherwise valuable oats. This year's oats/notes spread, much like the S&P 500 cash index it has forecast so well in the past, was full of sound and fury signifying nothing. Worse, it could not even capture this year's Abby Award for forecasting excellence. The 1999 Abby, a broken clock with Druid inscriptions, goes to Ron McEwan, a Research & New Business Developer at ILX Systems. Ron, who lives in the town of Massapequa on Long Island, and thus presumably speaks with that annoying accent, rose to the challenge presented in "Let Us Now Praise Famous Hogs" (*Futures*, July 1999) with a stunningly-obscure and what some might say contrived modeling approach. His forecast for the S&P 500 was based on a 53-day lag from the live hog contract. His forecast, submitted on July 20, 1999, called for a top in the S&P 500 on or about July 26, 1999. The actual top as of the November 12 day of this writing was 1431.20 for the September contract on the morning of July 19, 1999.

New Indicators For A New Millennium

The race for the Abby produced other spread suggestions from devoted readers, including the hog/log spread (lean hogs and lumber) and the meat/heat spread (live cattle and heating oil). Let's see how these entrants performed during 1999, starting with the hog/log spread, which we

shall calculate by multiplying the front month of lean hogs by 10 and subtracting the front month of lumber therefrom.

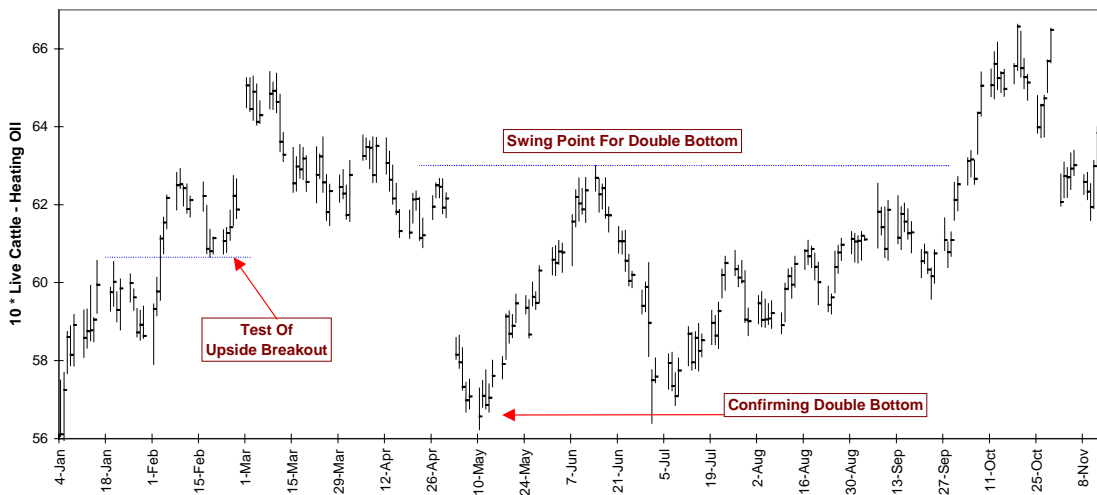
The 1999 Hog/Log Spread



With the exception of the stomach-churning waterfall decline culminating with the July 6 spike bottom, the hog/log spread seemed to find consistent support near the 70 level. If this did not provide succor to those worried about the impact of higher interest rates, it should have.

The meat/heat spread, produced by multiplying the dollar price of front month heating oil by ten and subtracting it from the front month of live cattle, had its moments as well. It put in an unmistakable double-bottom during the summer, and began accelerating well in advance of the eventual upside breakout on the NASDAQ.

The 1999 Meat / Heat Spread



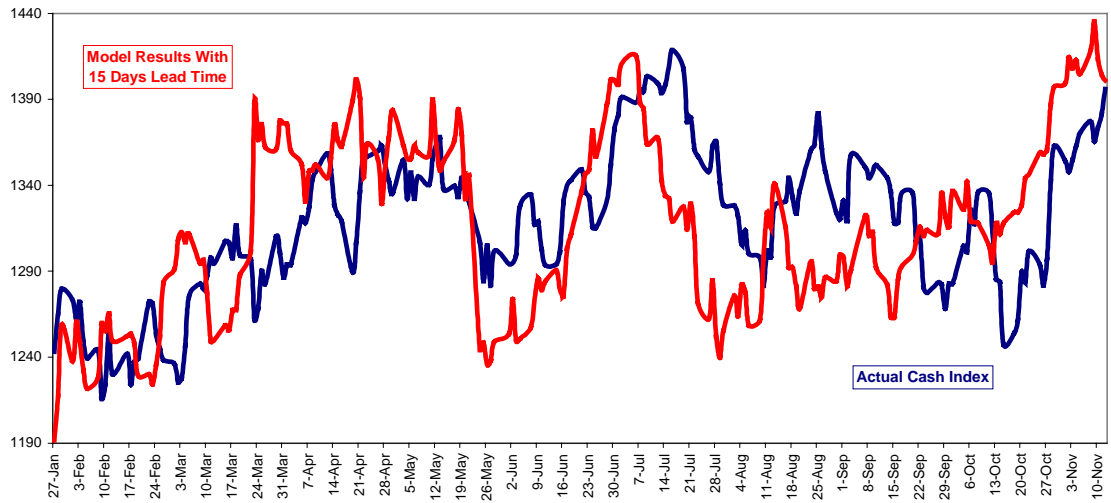
For The Abby 2000

Why limit ourselves to forecast indicator when we now have several at our disposal? Why not take all three nonsense spreads and blend them together in time-honored Wall Street fashion into one super model capable of reclaiming the Abby, like so:

$$\text{S\&P 500} = 4.46 * (\text{Oats/Notes})_{t-15} - .27 * (\text{Hog/Log})_{t-15} + 22.18 * (\text{Meat/Heat})_{t-15}, r^2 = .99$$

Each of the spreads is lagged by 15 trading days; this means we can model the price of the S&P 500 three trading weeks hence by using data from today. The leading relationship of this model is depicted below over the course of 1999.

Modeling The S&P 500 With Multiple Nonsense Spreads:
The 1999 Model Fit



The model turns tops and bottoms well ahead of turns in the index itself. No need to worry about interest rates, earnings, the Federal Reserve, or who said what on CNBC. It's all right here, and if you can prove otherwise, then the first Abby of the new millennium will be yours.