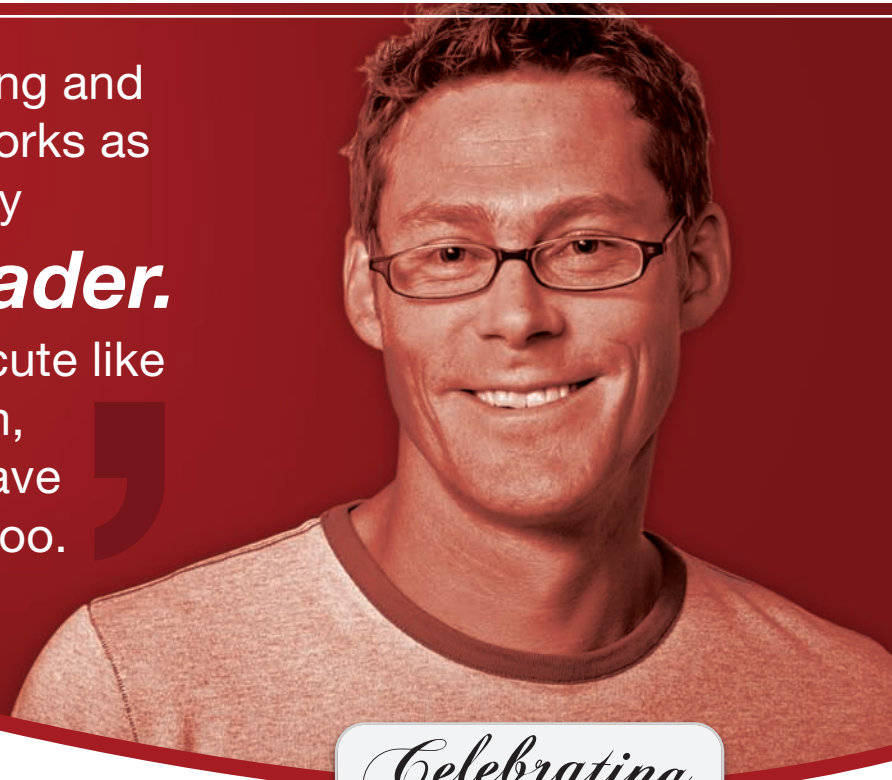


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Mathematician's Viewpoint.

by ANTHONY WARREN PH.D.

In this initial article the author will describe his viewpoint on technical analysis and the value of computer based algorithms for enhancing one's chances of success in stock or commodity trading. We will also outline a planned series of articles covering topics such as Fourier Analysis for Fun and Profit, Data Filtering for the Masses, Do Trend Channels Really Exist?, and The Threefold Path to Forecasting. (Titles are Fictitious)

The main problem of trading is in developing systematic rules for managing the unpredictability of the marketplace. Since price fluctuations invariably contain a random component, there is no analytic method or system which will guarantee success on any single, individual trade. Rather, one must be content with trading methods that optimize one's chances for success on the average. Thus, security trading is very similar to that of playing a game of chance. An experienced bridge player, for example, will always bid a given hand in the same way, even though a bid may succeed one time and fail another, due to the distribution of the remaining cards.

Technical Analysis is a collection of ideas and data analysis techniques which may aid the trader to time his trades, and to adjust the dollar value of these trades in a systematic manner. Computer based technical analysis may be used to the trader's advantage both in increasing the number of issues and analyses which can be surveyed and also for improving one's skill in the trading game. The latter is easily accomplished by systematic 'studies' or research of technical analysis techniques using the traders existing data base. This process of learning is greatly accelerated when properly focused by teachers and consultants expert in the trader's areas of interest. And this is precisely the motivation for the journal you are now reading. In other words, we are not interested in providing buy and sell decisions on specific commodities, or in marketing a particular trading system or methodology. Rather, our purpose is more tutorial, to explain the underlying ideas and subtleties of common and promising technical analysis methods, and to illustrate these methods.

Now some readers may be naturally concerned as to the value of a mathematician's tutorial on technical analysis, particularly if mathematics is not the reader's long suit. Rest assured that the author's articles will be mainly intuitive and user software oriented, since the major purpose of these communications is to increase the trader's 'feel' and appreciation for unfamiliar technical analysis tools, and to provide some rudimentary experience in their use.

One of the first tutorials will explain some of the basic steps in generating and interpreting spectrum plots of user's data. The basic idea behind this analysis method is to obtain a representation of the user's data as a sum of sinusoids of appropriate amplitude and frequency. A spectrum plot provides a visual measure of the strength of each cyclic component and is thus a useful tool for finding those periodic components which are strongest in the user's data. However, there are a couple of pitfalls which are easily avoided in generating spectrum plots, and also in deciding how to use this analysis method. Properly designed software goes a long way in avoiding the problems in generating spectrum plots and our tutorials will emphasize the how-to-do-it aspects of spectrum analysis and data interpretation.

Other articles will deal with technical analysis methods such as data filtering and smoothing. A

simplified method for data forecasting, and trend channel analysis for predicting market turns. Generally these articles will be accompanied or will reference existing basic subroutines, and will be illustrated by concrete case studies. I am looking forward to writing on each of these topics and I hope they will prove as useful to you as creating them will, be for me.

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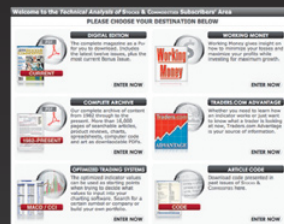
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