

PRODUCT REVIEW

# Correlation Reports: CSI Data

**COMMODITY SYSTEMS, INC.**  
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**Product:** Intermarket correlation reports based on historical data going back as far as 40 years.  
**Price:** \$39/month or \$295/year plus license fee of up to \$245.

by Jayanthi Gopalakrishnan

**If** you own shares of Starbucks, Inc. (SBUX), there's a strong chance you follow that stock on a regular basis. But do you ever think of following the coffee futures? Are the two positively or negatively correlated? Chances are you may not know, but it may be worth your effort to analyze such correlations. But that would require analyzing so many related markets it might not be worth your time. Fortunately, to reduce the time spent in analyzing the interrelationships among various markets, Commodity Systems, Inc. (CSI) has developed an intermarket correlation report, which can go through as many as 250 million market pairs with the click of a button and spit out a list of those that are significantly correlated with each other.

This tool is especially useful for spread traders since it identifies low-risk trading opportunities. Since it is a visual tool, you can easily see the relationship between two markets and also see where you can enter and exit your trades.

## FEATURES

Once you have a username and password, you're ready to test out all the features. The interface is simple and what you'll see first on your browser is a small window with tabs across the top of the page (Figure 1). You can opt to analyze a single pair of markets, one

## CSI HOME PAGE

market with everything else, multiple pairs of markets, or everything vs. everything. I started with the One vs. One tab (that is, analyzing a single pair of markets). I selected two symbols, one commodity and one stock related to the commodity, and selected a 30-year analysis. Once I entered the information and hit the view button, a report displaying the correlation coefficient as well as a chart showing the relationship between the two appeared. This lets you see the correlation. There is a third line known as the "signal line" that shows the relative difference of the two markets. This can be used to time your entries and exits. For example, when the signal line is in negative territory, it means the market represented by the red line is leading the market represented by the blue line.

Another approach is that once you find a market to trade, a spread trader should look for a market to trade on the other side. To do this you can utilize the One vs. All tab. You enter the tradable, which could be either

a stock or commodity, then compare it with all other commodities and stocks. Select your lookback period, macroeconomic series if you choose, and apply a filter to find the stocks that are highly correlated. A list of all stocks or commodities that are highly correlated with your tradable will be displayed along with their correlation coefficient. You can sort based on the coefficient, which makes it easy to identify those stocks that are positively or negatively correlated. You can then find the z-score and signal chart for the pair. The z-score is significant since a larger value means more powerful results.

Other options include comparing

**FIGURE 1: INTERFACE.** The look and feel of this tool is simple and there are few options for you to choose from, making it flexible to identify pairs that meet your trading needs.

**Correlation Reports Intermarket Analysis**

Introduction | **FAQ** | One Vs. One | One Vs. All | Multiple Vs. Multiple | All Vs. All

**Everything vs. Everything**

Type:    
 Period:    
 Include Macro-Economic Series   
 Filter highest/lowest: +/-  to +/- 1.   
 Show:  Correlations   
 Max Results To Return:

**Highest Positive Correlation Analysis Starting 19940418, 12 1/2 Years ago for Futures and Major Stocks**

Highest 120 Positive 12 1/2 Year Correlations

Market Names		Correlation
Amex 20 Stock Index	Index-Major Market-CME(Floor Trading Only)	1.0000
S&P 100 Index (OEX)	Index-S&P 100-CME	1.0000
SPDR Underlying	Index-S&P 500-CME(Floor Trading Only)	1.0000
Index-MIB S&P-MIF	Index-MIB 30 (INACT)-MIF	0.9999
S&P 400 Mid-Cap Index	Index-S&P MidCap 400-CME(Floor Trading Only)	0.9999
Russell 2000 Index	Index-Russell 2000-CME(Floor Trading Only)	0.9997
Petroleum-Gasoline-Reformulated Blendstock (Floor)-NYMEX	Petroleum-Gasoline Unleaded-NYMEX(Floor Trading Only)	0.9996
Forest City Enterprises Inc Cl B	Forest City Enterprises Inc Cl A	0.9996
Intrabk Offer Rate-EURIBOR-3 Mth-EURONEXT (LIFFE)	Euro Swiss Franco-EURONEXT(LIFFE)	0.9991
Russell 3000 Index	Russell 1000 Index	0.9990
Govt Stock-New Zealand(3 Yr)-SFE(NZFE)	Bank Bills-New Zealand(90 Day)-SFE(NZFE)	0.9988
NYSE Composite Index	Index-NYSE Composite Revised-NYFE	0.9987
Russell 1000 Index	Index-S&P 500-CME(Floor Trading Only)	0.9987
Russell 1000 Index	SPDR Underlying	0.9986
Govt Stock-New Zealand(3 Yr)-SFE(NZFE)	Govt Bond-Australian 6%(3Yr)-SFE	0.9985
Hong Kong Hang Seng Index	Index-Hang Seng-HKEX(HKFE)(Combined)	0.9984
Brown-Foreman Class B	Brown-Foreman Inc Class A	0.9979
Petroleum-Crude-Brent(Combined)-ICE(IPE)	Petroleum-Gas Oil(Combined)-ICE(IPE)	0.9978
Institutional Index	Index-S&P 500 SARRA Growth-CME	0.9978

FIGURE 2: ALL VS. ALL. This option displays a list of all correlated markets based on your selection criteria.

multiple pairs of markets where you enter commodity and stock symbols, select the time period to analyze, select the filter, and select whether you want to view the matrix in HTML.

The All vs. All option is one I found really interesting (Figure 2). You can select stocks and/or commodities, your lookback periods, filters, opt to look for positive or negative correlations, and select the maximum results to display. In less than a minute after hitting the view button, you'll see a display of all pairs and their correlation coefficient that meet your search criteria. The choices are many, but it's simple to identify those that can be traded.

Intermarket analysis has always had a strong foothold in the trading world. Although nothing in the markets is reliable, knowing which market is positively or negatively correlated with what you want to trade will give you an idea of its future direction. After all, isn't the objective of trading to trade in the direction of the market? And what better tool than the intermarket correlation analysis from CSI?

*Jayanthi Gopalakrishnan is Editor for STOCKS & COMMODITIES.*

**SUGGESTED READING**

Gopalakrishnan, Jayanthi [2006]. "Before Commodities Were King: Bob Pelletier Of CSI Data," interview, *Technical Analysis of STOCKS & COMMODITIES*, Volume 24: Bonus Issue.