

Dear Slim,

What trading methods or systems do you use in your trading, and how do you select your trades and manage them? On the technical side, are you partial to Elliott Wave, Fibonacci or another method? Finally, please describe the best trader or traders you have known and outline what method or methods were used in their trading?

-Ron L. (via e-mail)

Dear Ron,

The formula I use to trade may best be described as a “witches brew.” Take a few technical indicators, mix in some cyclical analysis, a barrel of guts and a ton of intuition. That’s not exactly something that’s easily explained, but here goes.

I start the process of analyzing a trade by looking for recurring cycle patterns on the intraday, daily and weekly charts. A cycle is measured from low to low and may be counted on a bar chart of any period (the basic primer on cycle trading is *The Profit Magic of Stock Transaction Timing*, by J.M. Hurst). It always amazes me how often stocks and futures repeat cycle patterns. After I determine if a stock or futures contract is in a bottoming or topping period, I look at the oscillators (stochastics, RSI, etc.) and Fibonacci levels for confirmation. Then I look for candlestick signals indicating that buyers or sellers are showing up, signaling that a reversal or continuation is imminent (refer to *Japanese Candlestick Charting Techniques*, by Steve Nison). That’s the technical side of it.

Once I’ve determined the trade in which I’m interested, I look for a favorable entry point. The better the entry on a trade, the less chance I have of getting shaken out of the trade if I’m early. If I’m a buyer, I’ll be buying while the stock is falling. If I’m shorting, I’ll be doing so right into the teeth of a rally. I enter the trade with my basic unit. For example, I trade five S&P contracts as my basic unit, but some people would choose one contract or two contracts or ten. Once the market tells me I’m right, confirmed by momentum picking up in the direction of my analysis (this is the guts-and-intuition part), I’ll be pouring it on, adding units and attempting to maximize the profit. The process is much more an art than a science. The result is potentially more winning trades than losers, with profitable trades much bigger than losing trades.

Managing the trade is easy when the analysis is working. I take some profits at extreme levels when the trade is going my way. Then on a retracement, I add to the trade again, using market wiggles to my advantage. If the trade is a problem, I use my discipline to determine loss parameters and stop points.

In answer to your question about the best traders I have ever known, there are several, and they fit into three categories. I have known a number of floor traders who never take a risk. They only make a trade when they know there is an edge and they can immediately hedge the trade or are leaning on a protective order. These traders used to make money consistently. However, with the possible demise of the trading floor, that opportunity is disappearing.

Then there are the highly disciplined method traders. They have a very precise plan. They wait for their opportunities and execute. As soon as they’re in a trade, they compute hedging possibilities,

Ask Slim

By Steven Miller



trade objectives and stop points. I have known very successful traders in this category. Some of them have retired very comfortably.

The next group of great traders is the “gunslinger type.” They wait for the market to show direction, and then they pounce. When they’re right, they add as much to the position as they can stand. When they’re wrong, they scramble fast to get out of the trade. These traders make and lose large sums of money. The biggest money earners I’ve ever known were in this group. However, this is not a style I suggest you emulate. Some of these traders are now broke. A couple of them are no longer with us, gone by their own hand.

Dear Slim,

On the issue of technology and online trading, many people are predicting that the open outcry system will give way to electronic trading solely. So many investors are directing their efforts toward trading online that I think it is inevitable. As an industry insider, when will electronic trading be the only option?

-Amanda H., Pittsburgh, PA

Dear Amanda,

The trading pits are now dying a slow death. The measure of that is the extreme drop in membership prices, which are down 60 to 75 percent from peak levels. A decade of soft agricultural prices and the bursting of the tech bubble have been major negative forces. However, the advent of online trading likely is the greatest reason for the demise of these markets.

Growth in online trading has been huge. The market on the E-Mini S&Ps just a year ago was rarely quoted larger than 50 x 50. Currently, it is almost always quoted 300 to 500 a side. However, for some online futures contracts, it may be some years before there is significant interest. The main reason for the success of the trading pits over the last century is that locals (floor traders), trading with their own funds, created very deep markets in which commercial companies and large speculators could execute trades. It will be some time until the evolution of online trading grows a new trading community that recreates the depth of the trading pits. Consequently, many of the lower volume contracts will be slow to transition to online trading.

Options trading differs from futures or stock trading. A class of options might have ten or more different strike prices and expiration dates that go out a year or two. That could be 50 or more different options series that are trading on a single underlying stock or future. Many of these options series rarely trade. Floor traders or specialists are required to make markets in these options to keep the marketplace efficient. An electronic solution to these pits has yet to be developed.

Despite the obstacles to converting many financial products to online trading, momentum to do so is in place. Lightning-fast execution and lower fees are driving traders to brokerage houses that offer the best trading platforms. Within a few years, as more and more futures contracts convert to electronic trading,

the major exchanges will be under pressure as revenues abate. Floor traders will be forced to make the difficult transition to off-the-floor trading. It’s inevitable. Online trading eventually will be the only trading.

Dear Slim,

There are so many news channels, websites, newsletters, etc., that it’s easy to get caught up in the noise of what advice to follow! Because I trade online, I would like to have a website that I can rely on to supply constant news and reliable information. Can you suggest a website, and if not, any other type of media resource which would be most helpful without switching from television to computer to radio?

-Albert V., Minneapolis, MN

Dear Albert,

As a day trader, I keep in constant touch with the news. Unfortunately, much of the time, the news hits the trading desks on the floors faster that it hits the TV, radio or any Internet sites. At times, I find the markets moving quickly, leaving me frantically scanning the news channels for information as to the cause. CNBC, CNN, Fox News and Bloomberg all seem to be about equal in the speed of reporting news.

The best source of information I have found is a website called CEOExpress (www.ceoexpress.com). It’s jam packed with a huge list of links to nearly every major source of business news, world news, magazines, online TV, charting services and statistical sources. It also has an amazing list of links to office tools, technical tools, essential downloads and travel information. If you want information, you’ll find it there!

But, if it’s advice you’re seeking, TV, radio or news feeds really are not the place to look. Go to the Internet and search for newsletters that cover in detail the specific markets in which you are interested. There are hundreds of commodity and stock market newsletters, and most offer free trials. Once your head stops spinning, you’ll get a sense for the ones that deserve money for a subscription.



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