

ASK SLIM

I'll share a quick history of my trading career and let you decide. I've been a trader for 31 years. My trading career began in 1974, at 24 years of age, on the Chicago Board Options Exchange (CBOE). Over the 17 years I was a member of the CBOE, I traded in nearly every pit on that floor. Much of that time was spent in the chaotic OEX pit. Over the years I was a member of the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT). I have traded "off the floor" since 1984.

In this column, I will answer your questions on the technical and psychological aspects of trading and trading methodologies. Oh, and the next question would be, why the name "Slim?" My badge on the CBOE was "SLM" (Steven L. Miller). Other traders gave me that nickname on my first day of trading, back in 1974. So, ask Slim!



Dear Slim,

I have enjoyed your articles in SFO magazine. Given your background and experience, I was hoping you would be able to take a few moments to give me your opinion.

It is my desire to trade for a living. I have been dabbling for the last three years and have not committed the time necessary to improve my results. However, I feel confident that I could make the transition and be successful. My background includes 15 years of running my own business, five years as a stockbroker with two major firms, and four years as an electronics engineer.

My dilemma is the following: I currently own and operate a successful human resources consulting firm with 20 employees, and I do not have the time during the day to watch the screens or monitor positions. I often am in internal meetings or out on calls with clients. My goal is to transition out of my business over the next two or three years and trade full time. In the meantime, I would like to trade part-time while I continue to run my company. I'm hoping that this will begin to bring me to a level where I will feel comfortable enough to leave my current field and begin a full-time trading career. As far as time dedicated to trading, I am able to work one hour per evening after the close each day and several hours on the weekend. I could, potentially, clear my schedule and carve out 30 minutes twice a day during market hours for trading, but monitoring hourly charts all day for entries or exits is not possible for me at this time.

This is my question: Is there a particular trading style or method of trading you would recommend that would work well with my current schedule limitations? I am a Metastock user, and most of my experience has been with stocks and options. I would appreciate any advice you could give regarding timeframes, types and number of securities/instruments/markets that should be followed and any other relevant factors you think are important.

—Joe Z., via e-mail

Dear Joe,

I have seen people make successful transitions from businesses unrelated to the markets and become full-time traders. I have also seen people successfully participate in the markets with similar time restrictions and business conflicts as those you describe. In fact, I have a coaching client who is a doctor and has adapted wonderfully to a trading style that allows him to check the markets between patients and at lunch and do his homework later in the office and at home in the evenings and on weekends. Will a similar plan work for you?

First, you need to find an investment vehicle that works within your time constraints. You have a great start there with your background as a stockbroker and your current involvement in stocks and options. Stocks, though much more capital intensive than options, will be a better choice for you, I judge. Options can work. However, with your time limitations, I would avoid buying options outright, which have 100 percent risk and can lose value quickly, and stick to more sophisticated, higher risk/reward spreading strategies.

The next step is finding a comfortable trading style and methodology. Clearly, day trading will not work for you, because it demands staying in touch with the markets constantly throughout the day. Your availability is a much better match for "swing trading," which is a style that falls between the constant position turnover of a day trader and the long holding period of an investor. I suggest building a trading universe in excess of 50 companies, containing your favorite stocks in each of the major industry groups (mine is 300). Then you'll have enough information from which to find trades. There are many books and websites on swing trading. I suggest *The Master Swing Trader* by Alan Farley.

The real question is, what is the dynamic that is operating within you that calls you to into the demanding situation of operating a full-time "successful" human resources business and transitioning into a full-time trading career? In the past 20 years, you have been in four completely different industries. I'm going to make a big leap here; my sense is that you have some need within yourself that you have hoped would be satisfied through your careers. One of the key elements to successful trading is that trading has the proper role in your life. If trading is just another pathway to satisfy this gnawing need, you are doomed to failure. My suggestion is to take the steps, through some venue of personal growth

work, to find your inner peace. Then trading or anything you choose to do will be far more satisfying.

Dear Slim,

I have a question that I'm sure resonates with a lot of investors. Recent events have spurred me on to write you at this time.

For the last few weeks, my technical indicators were signaling a top in all of the interest rate futures (Eurodollars, notes and bonds). However, there was what was being viewed, at the time, as a major fundamental report (employment) due out soon. The results of this report were thought to be able to move these markets very dramatically one way or the other, depending on how the report was interpreted. Because of this anxiety, I did not make any trades.

The result of all of this is that my technical indicators were right; the employment report was bearish for interest rates, and all of the interest rate futures collapsed dramatically.

My question to you, Slim, is (because this scenario is going to be repeated in one form or another many, many times in the future), in the face of a pending important fundamental report where technical indicators forecast one direction, should you make the trade in the direction of your indicators or wait for the outcome of the report?

Secondly, where you did not act prior to the fundamental report, and prices have had a big move in the direction you thought they would, what do you do now? Needless to say you're in a poor mental state of mind.

(As an aside, I have been investing in stocks, bonds and commodities since 1967 but still grapple with the above.)

—Phelps S., Washington, D.C.

Dear Phelps,

Before we discuss how to deal with this situation in the future, I want to point out how passing on this trade in order to keep yourself safe actually left you in a no-win situation. On one hand, if you pass the trade and your analysis of a falling market was correct, you fail to make money and feel bad about yourself for not acting. On the other hand, if you pass the trade and the market rises counter to your analysis, you still lose, because it supports you not trusting your analytical skills and method. It's a tough spot from which to operate as a trader and achieve success.

How do we turn this situation into a win-win? Well, we know if you make the trade and it goes your way, there's no problem there, the money is in the bank and you're feeling fine. But what if you make it and it goes wrong? How can that be a win? Losing trades are not always bad. The answer lies in making a loser a good trade by executing and handling it properly. Then when we lose, we win. In this case, it would have meant keeping the trade small enough that even if the employment report was bullish for financial futures, the loss would have been within your risk parameters, and you would have easily reacted to the minor problem.

The second perspective, essentially trading without cause for fear, builds trust in your abilities and avoids damaging your confidence in your trading methods and analytics. Then even when there is doubt, you take a leap of faith because you know there is no way they can hurt you.

If you do miss a trade, then wait again for another favorable entry, and execute in the proper size, avoiding the lose-lose that got you here in the first place. **SFO**



SEND ME YOUR
QUESTIONS!
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