

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 am 19 years old and I have a limited bank account. However, I am saving up in order to invest. (I don't like savings accounts.) What is the minimum amount of money I should have to start investing? Is it possible for me to invest in real estate? Also, I recently read about banks doing their own high-risk investing; is that something I can get involved in?

My biggest goal is to get involved in something with a high risk and high reward. While I want to be involved in the investing, I also want some guidance. Your answers and advice will be well appreciated.

—Carlos R., via email

Dear Carlos,

I admire your proactive attitude around building an investment portfolio at this early stage of your life. I agree with your leaning towards higher-risk investments, as at 19, in a program in which you invest slowly, you will be able to weather downside periods in the markets.

Investing in real estate, which is now very early in a downturn, will offer challenges. Also, banks that are involved in riskier portfolios will also have a tough time, as investors punish these companies for their mistakes during the easy-credit environment of recent years. You may want to peg these areas for investment in the future.

Mutual funds offer a good place for you to start. Most have a \$1,000 minimum investment. You can get plenty of bang for your buck in mutual funds, especially "aggressive growth" or "emerging market" types.

If you want to do your own trading, with reasonable diversification, or wish to invest less than \$1,000, a great way is in exchange traded funds (ETFs). These are securities that track an index made up of a bundle of stocks or commodities. There are even ETFs that track real estate, if you're still so moved.

Let's assume you invest \$100 a month, and your investments gained what is a long-term average in the stock market of six percent a year. In ten years, after having invested \$12,000, the value of your portfolio will be over \$16,000. If you were in an aggressive fund, with (assumed) average returns of 12 percent a year, you'd have around \$23,000. The same program, \$100/month over 20 years, will create a portfolio value near \$100,000. So you don't have to invest large sums of money to build a nice pile of cash. "Google" a search string that says "invest \$100 a month" and you'll find many brokers that offer "automatic investment plans."

Dear Slim,

I have no clue about stocks. I am a 57-year-old single parent who wants to make some money. That's probably the wrong reason to buy stock. I was told MasterCard will be offering shares at about \$40 a share. Would this be a sound investment? How many shares would/should I buy? How do I buy shares of stock, anyway?

—Clueless in Wisconsin

Dear Clueless (Ahem),

Well, by the time you read this, the stock of MasterCard (MA) will have already had its IPO at \$39 a share, traded up over 50 and back down to 44. Actually, you could not have paid \$39 since shares offered in an IPO only go to the biggest, most favored investors. If you were quick, you could have paid in the low 40s for the stock on the first day of trading. There would have been no guarantee, however, that the stock would rise after that. Just look at Vonage (VG), which lost some 40 percent of its value in the weeks after its IPO.

Here's my question. At 57, only six to ten years from retirement, is buying an IPO, the best way for you to invest? I think not. It would be better that your investment portfolio is well-diversified in low- to medium-risk securities.

Consult a financial advisor who will recommend a mix of investment vehicles that best fits your situation.

Dear Slim,

I am an investor who likes to buy stocks when they are cheaply priced. The homebuilding group has done poorly over the past months. These stocks seem to be quite a value, with most trading at P/Es (price/earnings ratios) of five or lower. Is this the time to jump in? Or is this too good to be true?

—Luke L., Omaha, via email

Dear Luke,

The stock market began to discount problems in the real estate market, based on statistics of affordability and growth in inventories of unsold homes, well ahead of the actual downturn of sales and prices. Thus, homebuilding

stocks have been one of the worst-performing stock groups since their peak in the summer of '05, with most losing over 40 percent of their value.

The real estate boom, which accelerated in the past six years, grew out of a period of extremely low interest rates. The result was a period of extreme speculation and corresponding overbuilding in homes and condos. Housing prices during this time, by all measures, moved to levels before unseen.

Most of the experts talk of a "soft landing" in real estate. In my 32 years as a trader, however, I have rarely seen a soft landing after a period of extreme speculation. The huge grain and precious metals markets of the '80s, dot coms of the '90s, and the flying emerging markets of the past couple of years all came crashing down. Granted, real estate does move more slowly than other markets. However, that means the excesses of this boom are going to take a longer time to correct. The last housing

recession, beginning in the late '80s, lasted for several years. And that correction came out of a period with far less speculation than present time.

Stocks like Centex (CTX), Ryland (RYL) and KB Home (KBH) all earned around \$10 a share in the past 12 months. At P/Es of five or lower, these stocks certainly look enticing.

For traders, the homebuilders may offer a good opportunity at these valuations. A normal bounce would have these beaten up stocks recover 30 to 50 percent of their losses sometime soon. Longer-term investors, however, may be frustrated. Interest rates will continue to be a problem, as will lenders' tighter credit policies, a slowing economy, high energy prices and an over-spent consumer. What were fantastic earnings for homebuilders are now history. Some of these companies may even lose money in the near future as prices decline and incentives take their toll. I would enter this group carefully, until we really get a sense of how badly this all turns out. ■

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SEND ME YOUR
QUESTIONS!
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SFO Stocks Futures & Options

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