

# 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 Mr. Miller,

Your "Ask Slim" column is a feature I look forward to in every issue of SFO magazine. The questions you select, as well as the thorough answers you provide, have been especially helpful to me as a new futures trader. I saw your advertisement on trader coaching in the back of the magazine and wondered if you would be able to shed some light on the issue of "overnight risk."

I have noticed that a longer timeframe (60 minutes) suits me better psychologically for trading the E-mini indices. I have also noticed that if you can "let your winners run," sometimes the run can be quite profitable over the course of a few days (position trading, I believe).

What I haven't found, after searching around, is the issue of overnight risk. Some gasp when you mention it. However, if you have a stop, what is the most probable risk? I know that a price can gap beyond your stop, but if trading occurs 23+ hours a day, aren't you mainly covered? At what point do the futures prices most often gap (sometime other than the open?) and what is a typical gap – more than 10 points?

—Lori B., via email

Dear Lori,

I really appreciate receiving a letter in which a trader exhibits a high level of consciousness to the psychological aspects of their trading. Ease in holding positions overnight in a market as volatile as S&P futures is a sign that your personality is a good fit with the swing/position style you describe. It says that you are an analytical and deliberate person, not requiring the instant gratification many of us day-traders need.

Gaps are routine on the daily chart of the pit-traded S&P futures. If you hold a position overnight, more often than not you will wake up in the morning finding an overnight change in price of several points. That is especially true during earnings-release season. During the past year, it has been quite rare, however, to see overnight gaps in S&Ps of more than six or seven points. If there is a big move, it most probably is the result of a 7:30 a.m. release of economic data. That has given traders plenty of time in the morning to observe the markets and adjust or place stop orders. Occasionally, there have been larger moves, with one in January 2003 around 24 points.

'Round-the-clock trading in S&Ps does give one a measure of comfort in holding positions. However, these overnight markets are very thin relative to the markets during regular trading hours. If there was an "event" overnight, the markets could move so quickly that a stop order would offer far less protection than you might believe. The fill could come in quite a distance from your stop price.

There are companies that offer alert systems that will page you or call you on your phone when an alert price is hit. This is a good tool to use, even if it might disturb your sleep. Try eSignal.com or CommodityXpress for examples of this service.

My best answer to dealing with overnight risk comes in the form of well-defined risk parameters. A good general rule is that no single overnight trade should risk more than ten percent of trading capital (five percent for day trades). I suggest using a gauge of double the outside parameter of a normal overnight change in price for the stock or future. That is about 14 points or \$700 for each E-mini. To follow this strict discipline, for each E-mini contract you hold overnight, you would need \$7,000 in trading capital, five times that amount for the big S&P contract. That is about double the minimum margins on this contract. Is that sounding quite conservative? It is! And it just might keep you alive!

Dear Slim,

I have learned much about the use of candlestick charts and have read Steve Nison's first book. I understand that they are like a bar chart, with an added "body" which is a representation of intraday movement of the stock. I have done well picking stocks using candlestick patterns and find them quite valuable. Will you please explain what a candlevolume chart is and how it may be used? Why would I use this chart instead of a regular candlestick chart?

—Cole M., Atlanta

Dear Cole,

A "candlevolume" chart is very much like a regular candlestick chart. Where it differs is that as volume increases or decreases the body of the candlestick widens or narrows.

This type of chart gives the observer a clear picture of whether an increase of volume is contributing to the movement of a stock, future or index. In just a glance, the trader can gain confidence as to the validity of the chart pattern.

Note on the chart of General Motors (GM) below. In mid-October there was a "Dark Cloud Cover" pattern, signaling a top was at hand. This candle is very wide relative to the rising pattern of the previous several weeks. You wouldn't have to look at a volume chart to see that a rush of sellers had come in on this day, adding confirmation that this was a negative occurrence. Notice in mid-November a "Morning Star" formed creating a "double bottom", with a very wide rising bar reflecting a large jump in volume. The message here is that the stock had reached a level where buyers were quite interested, creating a level of support.

Candlevolume charts are a great tool. They can be used with charts of all periods. They are especially valuable for intra-day charts and will flag a jump in volume that often occurs at the onset of an intra-day move in a stock. You can access daily and weekly candlevolume charts at no cost at [pcQuote.com](http://pcQuote.com).



Dear Slim,

recently read that a notable brokerage firm is awaiting punishment for allowing traders to trade with money from stock sales that had not cleared yet. They state that the normal time to clear a trade is three days. How do traders make large numbers of trades each day without violating this provision? If they all had to wait the required three days for the money to be replaced in their account, I would imagine they could only trade one or two days per week.

—Ron P, via email

Dear Ron,

Three-day settlement applies to the time investors are given to pay for equity positions they have opened and for the time they must allow after positions are closed before funds may be withdrawn. For trading purposes, it is allowable to reuse the funds for new trades immediately after a position is closed. Nearly every online brokerage firm increases your buying power appropriately at the moment a stock position is closed.

There are many ways a brokerage house might find itself involved in a disciplinary action regarding violations in margin-related issues. There must be other reasons that the firm you are referring to is being investigated.

Dear Slim,

I read with great interest the feature interview on Jim Rogers in the October 2003 issue. How can I contact Jim Rogers' commodity index fund?

Do you know of the Aden Sisters gold/currency advisory service and where I might contact them?


I read your column with great interest every time SFO hits my doorstep. Thank you for the solid input.

—Ms. Shane F, via email

Dear Shane,

Jimmy Rogers is certainly an amazing man. I so admire his broad vision of the world's social structures, economics and financial markets. His books are great reading and scream of his brilliance and the courage that permeates through his veins. He lives his own way and is a great role model for all of us wishing to truly experience life. For information on his books, his travels, his appearances and his email address, please visit his website at [www.jimrogers.com](http://www.jimrogers.com).

The Aden Sisters write a very comprehensive investment advisory letter that goes well beyond the precious metals markets. They are very well known and respected and have been publishing for 22 years. Their newsletter, "The Aden Forecast," proudly displays an excellent track record in gold, bonds, currencies and stocks. It was ranked in the top ten for 2002 of the 160 newsletters ranked by "Hulbert Financial Digest." Their annual subscription rate is quite modest, and they offer three-month trial. Go to [www.adenforecast.com](http://www.adenforecast.com). [SFO](#)



SEND ME YOUR  
 QUESTIONS!  
 AskSlim@sfomag.com or  
 Ask Slim  
**SFO** magazine  
 3812 Cedar Heights Drive  
 Cedar Falls, IA 50613



Provided by permission of SFO Magazine. Originally published February 2004.  
 © 2005 Wasendorf & Associates, Inc. • 3812 Cedar Heights Drive • Cedar Falls, IA 50613