
Ask Slim

By Steven Miller



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Dear Slim:

My friend pointed out your column and I really enjoy it. I wondered if there is anyone you might recommend to me as a money manager. I inherited my current broker at Prudential, as well as a lawyer who gives me advice along with my money (my father passed away prematurely). I find it hard to trust anyone else since these are the people my father trusted. The disadvantage is they can be hard to talk to, being my elders and all. They are making changes in my portfolio, but I still get a lot of the “don’t worry... yada, yada, yada, long term...”

I am taking the words to heart that you commented on to Raymond W., from Portland, Oregon, about the time frame of this bear market and taking advantage of rallies. Still, I wish I had another person or two I could trust with my money (children’s education, my retirement, etc.).
-Katy L., Unityville, PA

Dear Katy:

It saddens me to hear of your father’s premature passing. This untimely event has thrust you into a role of taking charge of financial issues that it sounds like you have not dealt with before. I hear your discomfort with this situation and with the necessity of dealing with attorneys and brokers. You don’t say your age, but I’ll assume that you are not a minor and are ultimately in control of these funds.

It makes me nervous, as it does you, to hear that your broker is somewhat inflexible. It sounds to me like you have inherited some holdings that have done poorly. From your letter, it seems you are relatively young which, in my judgment, means you can be aggressive. In this marketplace, that means also being aggressive in selling positions and rebalancing your portfolio when it’s appropriate. It means dealing with a broker that will talk to you extensively. If that is not the case with the broker your father has been using, read my piece on finding a commodity broker in the November issue of SFO. It applies here.

I do not have any particular money manager that I favor. The best place to start your research is at Morningstar.com. It lists thousands of funds, which you can sort and filter in a multitude of ways. There are also many websites that list hedge funds. Your broker should help you sort through this maze of statistics and help you balance your funds properly.

My piece on this is: though I believe we are in a major rally, with likely another 1,000 or more DOW points to rise, this is still a long-term bear market. Make sure your broker is willing to let you balance your portfolio with much less risk in stocks just when the market is looking its best. It will save you from more of those “Don’t worry... yada yada yada.... long-term” discussions.

Dear Slim:

I find your column the highlight of SFO magazine. Keep it up! I was intrigued by your answer to Pete M. in the Nov. issue re: trading time cycles. Few of the many trading books I’ve read devote much time to this except to note the rotation in volatility. Larry Williams is an exception and claims it is more predictable than

price change. I trade the mini S&P and would like to know if there is any way to determine the beginning or end of the 12 to 19 hourly bar cycle other than price extremes? How does time of day affect it, etc? I believe there are a lot of us out here that would be extremely interested in learning more from you regarding these cycles.

-Will M., via email

Dear Will:

Thank you for the kind words. I get much pleasure writing this column and sharing my experience with my readers. I have studied cycles in the stock market since 1977. I am familiar with Larry Williams' work, and I agree with his notion that time is more predictable than price.

I find the best way to study cycles is to spend time going through charts of all time periods. Mark the points of significant lows and then look for recurring bar counts between the lows. Often at these points, you will see oversold oscillators, candlestick buy signals and increases in volume as the stock or future rises off the low.

Tops are harder to time. Generally, when the stock or future does well in the "window" of time it should be rising, a bullish attitude should be maintained. However, if a cycle bottoms and the rising period does not develop into a good rally, you can get a good sense that this will turn out to be a negative cycle, with lower lows to come.

Cycle trading is an art, rather than a science. There are no real rules. A trader needs to feel the movement within the cycles and act according to their sense around how the price is doing relative to where the stock or future is within its cycle. It takes a lot of studying and some patience as you wait for cycles to develop and then "talk" to you.

Dear Slim:

Now that 2002 is winding down, I find myself anxious to put this trading year behind me—as I'm sure a lot of other traders are, as well. I was just curious to know if you have any market predictions for the upcoming year? Or anything you would like to see happen in the next year?

-Phil B., via e-mail

Dear Phil:

I strongly believe that 2003 will be a good year for the stock market. The combination of a slow-growing economy, low interest rates and reduced pressures from geopolitical issues will be the perfect setup for this "Bull Hook." Though I expect the market to be very volatile, especially if we go to war or there is another (heaven forbid) terrorist attack, the intermediate trend should remain up. I'll go out on a limb. I'll predict a low in the DJIA of 8250 (early in the year) and a high of 9700 (sometime in the fall). Enjoy it while it lasts. The year 2004 should resume the secular bear market.

Dear Slim:

What is the difference between "implied volatility" and regular volatility? Is it the volatility that is expected for that particular time period or product? I've seen this term being used in relation to options. Could you explain? Are there other trading vehicles that implied volatility affects?

-James L., via e-mail

Dear James:

Volatility is a measure of the rate of change. It may be for a particular stock or future or for a portfolio as a whole. Higher-priced or thinly traded stocks tend to have wide swings and are said to be highly volatile. Stocks like utilities tend to move very slowly and are said to have low volatility.

Implied volatility is a measure of the perception of the market's expected rate of change. It is mostly used in options. Variables to implied volatility in options are the expected percentage range of the underlying stock or commodity, interest rates, time left until expiration and dividends. Option traders use implied volatility as a pricing tool. Implied volatility is ever changing as trader's opinions of the market change. Hence, it is used as a measure of market psychology. When "implied vols" are high, market participants are bullish. When they are very high, contrarians say it's time for the market to fall. Look at George Fontanills' article in this issue for a good explanation.



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