

# 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 read that Bollinger bands can be used to predict an explosive price movement, but not the price direction. Please explain this concept. Which indicator(s) can I use to determine the direction when a rapid price movement does occur after a Bollinger band signal? Would you also happen to know of any website that features a list of stocks with very low BB width?

-Steve S., via e-mail

Dear Steve,

Bollinger bands were developed by well-known market analyst and investment manager, John Bollinger. He is credited for developing several analytical tools, widely used by technical traders. Bollinger bands are envelopes that are constructed by taking a simple moving average, most often a 20-bar, and then plotting upper and lower band lines at two standard deviations. As volatility diminishes, the standard deviation falls, so the bands narrow. The reverse happens as volatility increases.

This charting tool is quite versatile and can give off trading signals in several ways. It also works well with many other indicators, including candlesticks and oscillators like MACD or stochastics. Generally, when the Bollinger bands get very narrow, a sharp price movement should be close by. Often, the center moving-average line becomes a support or resistance. At times, the chart will "tag" an outer band and then move back to the moving average. When the chart moves outside of the upper or lower band, it signals that a trend is beginning.

Notice on the 60-minute chart of IBM to the right, the stock was in a downtrend, touching the 20-hour moving average several times. The Bollinger bands narrowed significantly, coinciding with a double-bottom and a candlestick bullish engulfing pattern. When the stock traded up through the upper band, it confirmed the buy signal. Within just a few hours, the stock exploded upwards. Also notice that when the stock consolidated, it came down and touched the lower band many times, finding good support, and then started to move up again.

Bollinger bands work on charts of any period. On daily and weekly charts, you will need patience while awaiting a signal. I like them best on intraday charts.

Stock screens on Bollinger bands are available on many sites. Try [www.stockcharts.com](http://www.stockcharts.com) for a huge selection of free scans, including this great tool.



## Slim's Stock Market Predictions for 2005

Before we look at 2005, let's peek back at my prediction for 2004 that ran in SFO in January 2004.

*"I expect the stock market to paint a near mirror image of last year (2003). The rally should continue well into the late spring of 2004, with the DJIA topping out in the area of 10,150. Then the secular bear market will sink its teeth deep into this mini-bull. By the fall, the market will be well on its way back down, with an expected low of 8540 occurring in October or November." And later in the article, I say, "...the 50-percent Fibonacci retracement level clusters with other major resistance at around 1160 on the S&P 500."*

How did I do? The stock market peaked last year in the first week of March, which matched my timing for the high of 2004 very well. The peak was much higher for the Dow than I expected, as that index well outperformed the other major averages early in the year. Also, I noted the major resistance on the S&P 500 was at 1160, which amazingly peaked at 1163, finally to be pierced in the post-election rally. The decline into the fall came as expected, with the low coming in October at 9708 on the Dow. The range for the year was the narrowest in a decade. Consequently, I timed the year with great precision, yet missed both the high and low by a quite a distance.

### And for 2005?

Fundamentally, little has changed for 2005. The economic correction that began in 2000 after an 18-year expansion still is in force, as seen

by last year's tepid economic data and the poor showing in the stock market. Thus, weak economic growth, little to no job creation and sluggish corporate earnings will persist. The war on terror will not end this year, and its costs will have to rise. It's a perfect mix for even bigger deficits and a very weak dollar.

Another problem is that stable or softer energy prices will bring higher rates as the "flight-to-safety" trade is unwound in the bond market and Greenspan's rate increases finally take hold on the long end of the interest-rate curve. That will cause big trouble in the real estate market, as well as for the over-leveraged homeowner who has been fueling the economy with equity out of their homes throughout the refinancing boom.

Technically, the stock market is 28 months off its lows, which is beyond the average length of a bull market. The fact that the S&P 500 recovered just more than half of its losses – and much worse for the NASDAQ – is proof that this rally is a bounce in a secular bear market. It sets up what should be another tough year for the stock market.

I see the stock market making its high early in the year once again, with the Dow Jones Industrial Average making a top of 10,750 in February or March. By spring '05, the bears will be in control. The low for the year should come in September or October, with the Dow hitting 8700. The period of low volatility and tight ranges is over.

Thanks to all my readers for a great year of questions and comments. Keep them coming. Great trading! **SFO**



SEND ME YOUR  
QUESTIONS!  
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