

Dear Slim,

I have been placing my trades by phone, and have been considering switching to an electronic platform. What do you see as the benefits and drawbacks of trading electronically, and what would you look for when considering a platform?

-Marijane K., Gulf Shores, AL

Dear Marijane,

There are two levels of trading by phone. Most traders, who call in their orders, call to a broker or a trading desk. Their orders are then either entered into an online terminal or sent down to the trading floor and handed to a broker. It's an agonizingly slow process. If you are a very active trader, you may be calling directly to the trading floor with your orders "flashed" into the pit from the phone clerk. Better, but still a bit cumbersome.

The benefits to trading electronically are numerous. Assuming you are trading in futures markets that are virtual (i.e. E-mini S&Ps and ACE Bonds and 10-Year Notes Futures), your orders hit the marketplace instantly. If you trade stocks, orders get routed to the specialist on the NYSE and market makers on Nasdaq within a second or two. Fills come back just as quickly. That gives the trader incredible control of his/her orders. If you want to cancel or change an order, it's nearly instantaneous.

Commissions are another very important aspect. Any time a live person handles an order, they have to get paid. Online trading offers much lower commissions, imperative for an active trader.

Trading platforms vary greatly. As a very active trader, I want to be able to enter orders and then access them very quickly. I also want to see as much market information, in an easily readable format, in as small a space as possible. Stock traders will want to have extensive monitoring capabilities. I've seen platforms that only allow 20 stocks in a window. I watch over 200 stocks on my screens. Most traders want live news and research available. Some companies charge extra for those services. Additionally, it is important to see the statistical information of one's account in a dynamic format (live). Some platforms take a lot of refreshing and page changing. That doesn't work for an active trader.

Reliability, technical support and order desk backup are also major considerations. It's so painful when one has positions and live orders and the system goes down. If something goes wrong, you'll want to know you can get help quickly.

For stock trading, my favorite is Cybertrader, who has done an amazing job answering the needs of their active traders. It is an all-in-one system that includes unlimited monitoring, charting, news, tickers and scans. There are a variety of account and order views, all easily accessible. Profit/loss and buying power are dynamic, so you know how you're doing and how much money is available to you at all times. Orders are easily entered, with just a click on a symbol. Support is great, with online techs and quick phone response. All this is included just for opening an account. Commissions are at the low end of the scale. The bonus is, if you're an active trader and meet the qualifications and capital requirements of a "pattern day trader" (see NASD Rule 2520 amendment), you get 4:1 on your money.

Ask Slim

By Steven Miller



For futures trading, there are none I know of that are all-in-one. Resources for monitoring, charting and market information are separate from an order-execution platform. I use Best Direct, which is an extremely user-friendly platform. Just a couple of clicks loads orders and sends them off to the markets. Orders are easily managed. "Quick Trade" windows offer streaming market views and effortless access to multiple markets. Profit/loss is live on the new version, so you always know how you're doing. Tech and order desk support is great, with someone always ready to help. Amazingly, the system almost never goes down. Commissions are competitive. Execution doesn't get easier than this.

The greatest drawback to switching to electronic execution is losing connection with a real person. If you have been placing your orders with a broker, you may have benefited from the insights of a professional who stays in touch with the markets. If you have been placing your orders directly to the floor, the floor broker often shares information about the flow of orders or professional activity, helping you to sense market direction.

The advancement of the trading industry into the electronic age has made the trading floors and full-service brokers far less important. The competitiveness of the industry is already making customer service a priority, supplying much of what we needed from brokers, at a fraction of the cost. My sense is the decision of whether or not to trade online has already been made for us. The time is now.

Dear Slim,

If leverage is an important factor in trading Single Stock Futures, is there a ratio or a way to figure out how much leverage to use, and how much is enough when trading? Also, are there simple rules to follow when calculating your risk management techniques? -Dave H., Phoenix, AZ

Dear Dave,

The amount of leverage you will use when trading Single Stock Futures is not a choice you will have. Minimum margins are never set by the trader. The amount of risk, however, is within your control.

The rules of risk management when trading Single Stock Futures are similar to those of other financial products.

1. Determine a comfortable amount of risk capital which, if lost, will not affect your lifestyle. That's usually less than 15% of net worth, more for full-time traders.
2. Never lose more than 5% of your capital on a single trade or more than 10% in a single day.
3. Choose Single Stock Futures to trade that have volatility that you are comfortable with and allow you to stay within your acceptable loss parameters.
4. Use Stops if there is any question about your ability to close your positions when your exit point or your loss limit is hit.
5. Develop tools that increase the odds of favorable entry,

lessening the risk of prematurely being taken out of positions by market fluctuations.

6. Do not overtrade! The low margins on this contract will lure you. Commissions on this product may be deceptively high, well above what active traders pay when trading the actual underlying stock. These costs will mount and dig deep into equity.

Part of risk management is determining what markets are best suited for the individual trader. If you are an occasional trader, attempting to improve on your use of funds, Single Stock Futures may be an excellent answer for you. If you are an active trader, however, you may prefer the deep markets and low commissions on the NYSE and Nasdaq.

Dear Slim,

We are a brother and sister trading team. We have been trading for three months, and we pretty much are in agreement about our trades. We are primarily technical traders that follow trends. My brother wants to make some changes and start to look at the fundamental side of the market. We are doing ok, for now, and I understand that the majority of traders are technical. Could you tell us if fundamentals are good to follow?

-Michael and Meghan K., Aurora, IL

Dear Michael and Meghan,

The question you present has been an age old battle. Those that follow fundamentals argue that no matter what the charts say, expectations of growth and profitability for equities or supply and demand for commodities will determine price. Technicians, however, look at historical data. They manipulate the information into endless arrangements of charts and indicators, attempting to project what they read from the past into a future forecast. Technicians state that the fundamentals are already in the charts.

Your description of your decision process, taking time to agree on trades before you enter and exit them, leads me to believe, for traders, you have a relatively long holding period. That might indicate fundamental analysis is a fit for you. It means your trade selection will be made based on specific information and your assessment of valuation. Your intention will be to hold positions until the fundamentals change, price expectations are met or loss limits are hit. You will be tested! It is nearly a certainty that at some point the market will move against your position, tempting you to look to the charts for answers.

You see, I do not believe fundamental and technical analysis work well together. They are two distinctly different paradigms. They have their own set of tools, filters and holding periods. The two methods can actually contaminate each other.

My take on it comes purely from a technical trader's view, whose average holding period can be measured in hours. I let the charts and tape action talk to me. When they say there are buyers around, I want to be long. When they say there are sell-

ers, I short. I don't believe fundamental analysis fits into my style at all. So make a choice! Which style works for you?

Dear Slim,

I will soon be putting on equity bull spreads and the put variety also. It will be my first venture into option trading. What are the best technical indicators to use to enter and exit the positions?
-Doug L., Kansas City, MO

Dear Doug,

There are two places on the charts I like to do vertical bull spreads. I enter the trade after a stock has had a declining period, has done some base building and has given me a buy signal. The second choice is after the stock has sharply advanced off of a bottom, has pulled back and is in a consolidation formation.

I find the best way to improve on the timing of entries into bull equity spreads is to use a combination of tools. Because the holding period for this type of trade is usually from one week to eight weeks, I suggest using daily charts for your studies. Choose an oscillator that you are familiar with, such as Stochastics, Wilder RSI, Momentum, CCI, etc. Apply

the study to stocks that have been in a declining period, but avoid stocks that have been in a recent meltdown. They don't hold a bounce! Look for stocks that have turned up and have given a candlestick buy signal off of a secondary low. Those are the stocks with the best upside probability. Information on candlestick charting is readily available. The best is a book by Steve Nison called Japanese Candlestick Charting Techniques.

Exit bull spreads, hopefully with a profit, when the stock is overbought and has given a candlestick sell signal. Sometimes, the stock rallies a bit off its low and then drops to another new low. Under that condition, based on your risk parameters, a decision will have to be made whether to take a loss or wait to see if the chart forms another buy signal.

Bear spreads use the same technique, reversed. Enter on an overbought condition with a candlestick sell signal or in a consolidation period after a sharp drop.

Spreading is a great, lower-risk choice to learn option trading. Remember, though, even spreads expire worthless.

