

# 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,

Several hundred U.S. companies are "optionable." Could you tell me if there are websites where the put/call ratio on individual stocks can be found on a daily basis?

—Léon D., Belgium, via e-mail

Dear Léon,

The put/call ratio is calculated by dividing the volume of puts by the volume of calls traded on a given day, week or any period. It is used as a sentiment indicator for the stock market, similar to the VIX. When the ratio is low, say below .50, the demand to buy put options is very low (relative to call options). It shows investor complacency and is a negative sign. When the index is near 1.0 or higher, there is strong demand for puts, meaning market participants are overly bearish, which is a positive sign. The CBOE publishes this index on a daily basis ([www.CBOE.com](http://www.CBOE.com)).

Getting put/call ratios on individual equities is harder. I have not found services that offer this information daily. However, volume figures on equity options are published daily. Though cumbersome, you could do these calculations yourself. There is a service offering weekly P/C ratios on equities. Larry McMillan, well-known options expert and author, offers a weekly service that e-mails weekly put/call ratio information on individual equities ([www.optionstrategist.com](http://www.optionstrategist.com)).

Dear Slim,

In March 2003, you discuss Fibonacci retracements, indicating a maximum retracement of 61.8%. I have seen a reference to 76.4% as the maximum allowable retracement. Any room for ambiguity between analysts, or how do you respond to a 76.4% level?

—Dale S., CMA, CFM, via e-mail

Dear Dale,

First, a quick refresher: Leonardo Pisano (nickname – Fibonacci) was a 13<sup>th</sup> century mathematician in Italy, known for discovering a sequence of numbers while trying to decipher the reproduction rate of rabbits (0, 1, 1, 2, 3, 5, 8, 13, 21, 55, 89...). Each number is the sum of the previous two. The relationship between the numbers in the sequence is that any number is 1.618 times the preceding number and 0.618 of the next number. Other relationships between the numbers are 23.6%, 50% and 76.4%. All of these percentages – Fibonacci retracements – are used in technical analysis to locate chart support and resistance points.

In 2003, I was keying in on a resistance point on the S&P 500, determined by the 61.8% "Fib." The 76.4% level also is significant. However, if a market makes it that far back, in a counter-trend move, it often suggests the market has reversed direction. Traders key in on these levels. Thus, movement toward Fibonacci numbers is practically self-fulfilling.

Hey Slim,

I've only recently been a reader of your columns, and I have found them to be very informative. I am interested in strategies combining options and futures trading. I've been a very active trader in the options market (mostly spread trades), but am intrigued by the possibility of combining it with futures. With implied volatility reaching multi-year lows recently, I'm considering doing a trade using SPX options and E-mini S&Ps (long gamma/delta neutral). What are your thoughts?

—DJL, via e-mail

Dear DJL,

I haven't written much in this space about trading options against futures. However, I do look at that strategy frequently. The specific strategy you are suggesting is one in which you buy SPX calls and short E-mini S&P futures against the position or buy SPX puts and buy E-mini S&Ps against it. You buy the puts or calls in a ratio against the futures, so the strategy is neutral (delta neutral).

This is a great strategy when implied volatility is low (options are cheap) and the market goes into an accelerated trend. For instance, let's say you bought SPX calls and shorted the

E-mini futures. If the market goes sharply up, the call options – as they pick up intrinsic value – gain at a rate that is greater than the rate of loss from the offsetting short futures position (long gamma). If the market went down sharply, the value of long calls would approach zero, and you would still have the short E-mini position making money. You make money either way as long as the market moves sharply.

The markets, however, are not always this compliant. This strategy, though considered neutral, can be very expensive if the market does not make a significant move. Even in a low-volatility environment, SPX calls are highly priced. If the stock market chops in a narrow range, option decay is going to cause significant discomfort.

Alternatively, you might look at a market that has higher volatility – e.g., the crude oil market, which seems to live in a high state of motion. Yes, you might pay more premium for the options. However, the odds are lower that you will get caught in a market that goes dead, leaving you suffering with deep losses and questioning what happened in your seemingly low-risk trade.

*Dear Slim,*

*I'm 64 and want to become a full-time trader from my home, but am confused regarding the different venues, i.e. stocks/equities, forex,*

*e-Mini, futures, etc. Is there a test I can take to help me determine which is best for me so that I can concentrate all my efforts in one area?*

*–Don R., via e-mail*

Dear Don,

There is an online company that offers a personality test for traders, Winning Edge Strategies. The site's owner told me that traders spend much time and money trying to find a system that works, only to find – despite claims of historical success – that the system does not work for them. So traders try to change themselves or design a restrictive trading discipline, which is “far from the proper solution.”

Winning Edge Strategies' test is designed to identify five important personal traits. The goal is to identify your strengths and weaknesses, so you may select a compatible methodology and trading style. The test is 240 questions and takes about 20 minutes. You receive a 25-page report and a complimentary phone evaluation. The cost is \$375. I have not seen the test or its results, so I cannot vouch for its accuracy. However, in our discussion, we shared concepts and a common language on how to help traders achieve great success. I liked it.

Go to: [www.winningedgesystem.com](http://www.winningedgesystem.com). **SFO**

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QUESTIONS!  
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