

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,

The pit-traded S&P 500 stock index futures and all the electronically traded index futures continue to trade 15 minutes after the cash index closes. Why not settle the futures at 3:00 p.m.? Why is it necessary to go for another 15 minutes?

—Henry D., via e-mail

Dear Henry,

Back in the early '80s, when index futures trading was in its infancy, technology was very different than today. After the close of the stock market, the tape often ran for several minutes before all the final trades were in and closing prices posted on the individual stocks. Thus, it took three or four minutes for the settlement prices on the cash indexes to appear. On most days, the S&P cash (SPX) moved 30-50 cents in the "run off." I remember one expiration day when the index moved almost three full points.

Locals in the futures pits, floor brokers and market makers in the options pits needed to be given the time to react to the last-minute change in the settlement prices. Their obligation was to facilitate the orderly execution of the "market-on-close" (MOC) orders, and they needed time to adjust their positions – thus, the later close. The Chicago Board Options Exchange knew this from the onset of trading in 1973, ringing the closing bell ten minutes after the close of the NYSE.

Today's advanced technology allows settlement prices to come in less than a minute. Pit traders, however, have the same issues and obligations at the close of the day. In a few years, when the pits are gone, we'll see this change as we move to seamless 24-hour electronic trading of all the world markets. Pass the "NoDoz" please.

Dear Slim,

It often occurs that fund managers move around very large amounts of stock, say three million shares or more. How do they manage to move in and out of the market this way and not greatly affect the price of the stock?

—Randy C., via e-mail

Dear Randy,

When investment managers wish to buy or sell a large block of stock, they must consider several issues. First, how liquid is the stock? High-cap stocks with over a billion shares outstanding can take quite a large block of stock without moving the price significantly. It may be quite difficult to move a block in a small-cap stock, however, as they often have tiny floats and volumes of less than 100,000 shares a day. Also, what is the trend of the stock and condition of the marketplace? Obviously, it's best to sell a large block when buyers are abundant.

Fund managers will assess these conditions and, acting in the best interest of their fund, move the block in a manner that least affects the price of the stock. They may quietly "shop" around and look for a buyer that is interested in their block. They might "piece" it out, trading small parts as the market conditions permit. Or they might move out of the stock "synthetically," creating an options strategy that offsets their position and then assigning away the stock. Moving large blocks of stock is within the normal course of their business, and most managers do it well. We should all have these problems.

Dear Slim,

I love trading the E-mini at home over the Internet. Are there any international markets like the E-mini, with a lot of liquidity and range, that I can trade on weeknights and weekends?

—Larry P., via e-mail

Dear Larry,

You gotta get a life, man. Like the U.S. index futures markets don't offer enough thrill?!? If you wish to trade something different, however, residents of the U.S. will find forex one of the best choices to trade at night. Currency markets are deep once Europeans start their trading day. At times, these markets have large moves. That is especially so on event-driven days like the horrendous bombings on 3/11 in Spain.

Another choice for trading at night is the European index futures. Check out the Eurex-DAX and the EURO STOXX 50 futures. There still won't be any trading on weekends.

Dear Slim,

I day trade the E-minis and have been doing very well after a two-year plus learning period. I have very good indicators, and my entries have been right on (most of the time). I am hoping that you can give ideas on exit strategies that you think work well. I use Meta Stock with two-minute and 15-minute charts.

—Elliot R., via e-mail

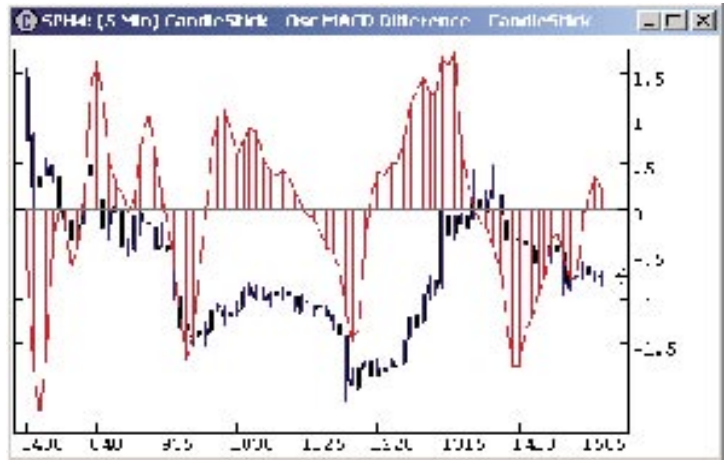
Dear Elliot,

The examples of the charts you use for E-mini trading indicate that you have a short holding period, probably 15 to 30 minutes on the outside. The problem with a holding period of that short of a duration is that by the time the market reverses, most or all of the profit in a trade can disappear. So, "trend-following" indicators are not very useful. The best answer to this is to use a method that can take you out of a trade before the S&P market significantly changes direction.

I believe you will find the chart below helpful. The chart consists of an MACD with a candlestick overlay. MACD charts (moving average convergence-divergence) are oscillators that measure the distance between two moving averages. In this case, the chart is a five-minute S&P chart, with a duration of a single day and the MACD settings at 3 and 21 bars (histogram or MACD difference

format). You will notice that each time the moving average divergence neared 1.5 points, S&Ps halted their move and, in many cases, "wicks" began to appear on the candles. In most cases, that signaled a spot in which to exit or even reverse a position.

This method is used for charts of any duration. Just play with the settings on the two moving averages, looking for the one that works best for the contract in which you are involved. It is best to stay with moving averages of shorter durations. Then you will avoid signals coming too late and giving back too much of the profit on the trade. [SFO](#)



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