

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,

Recently, Atlantis Plastics (ATPL) stock was trading at \$18.00 per share. Trading in the stock was halted, and they announced that the company would be paying a special one-time cash dividend of \$12.50 per share. The stock opened up around \$21.00 (where I picked up 2,000 shares) and has been trading around \$24.00 per share recently. Why isn't the stock trading closer to around \$30.00?

—Anon, via e-mail

Dear Anon,

There are a number of reasons why companies offer cash dividends. Microsoft (MSFT), for example – a company that has been a massive money-making machine – had a huge \$60 billion hoard of cash. They already had a stock buy-back program in place and seemingly weren't happy with their choices of investments outside of the company. Thus, they paid \$32 billion out to their shareholders in the form of a one-time, special \$3.00 cash dividend. This left plenty of cash in the company.

Atlantis Plastics is a much different story. Through their special dividend, the company paid out more than \$100 million to shareholders, an amount that represented years' worth of cash flow. Additionally, to pay out the cash, much of which went to insiders, ATPL took on a great deal of debt, which potentially could encumber the company in the future. On April 11, 2005, ATPL opened ex-dividend at \$9.91 and then traded down near \$8.00 that week. Hence, there was little overall reward for the shareholders who had held on for the dividend. For this deal, as is true in many cases of large cash dividends, it's best to just sell the stock if it rallies on the initial announcement.

Dear Slim,

I recently went to a two-hour demo/seminar for "Wizetrade" which is a computer program that tells you when to buy and sell stocks. It is based on analyzing the number of buyers vs. sellers and purports to be a great stock-timing program. Now, I am a former CBOE market maker (25 years ago) who has come back to my interests in trading stocks and options to increase my income. What can you tell me about the Wizetrade computer program and their companion programs? Will they help me get my trading legs back?

—SHY, Lake Forest, IL

Dear SHY,

Your letter was the third one I received requesting my opinion on this trading program. I called Wizetrade and asked them to explain the program to me. After an hour-long, informative demo, I had a good sense of what they offer.

Wizetrade is trend analysis software for the stock market. The program measures buying and selling pressures through the examination of seven key data factors. The red and green lights essentially reflect what has happened in the daily, weekly and monthly trends, their "Three Wise Men" and five customizable intraday periods. The program looks at what has happened. Thus, it is not predictive and does not give buy/sell signals. It is a tool to measure risk. It is up to the trader to use the information in a way that fits best with their own trading style and discipline. So in my judgment, there can be a long learning curve.

The cost of the program is \$2,995, which includes their eight steps to success, a six-set DVD training pack, a training video, training classes and their "Live in the Market" trading broadcast. There is a 15-day trial period. The system is powered through their own Wizefeed, for a very economical \$29.95 a month. They also offer stock trading execution and the ability to paper trade. Separately, they offer a scanning tool and similar programs for options, commodities and forex.

I asked them if I could try the program live. They declined, saying I would need to buy it. I also declined. Thus, I cannot give an opinion on the program itself. However, I did get a sense that they offer excellent support with training sessions scheduled all over the country. If you can trust their testimonials, there are many people who have improved their trading success through this program.

Oh, and no trading program will help you get your "trading legs back." Only you can do that.

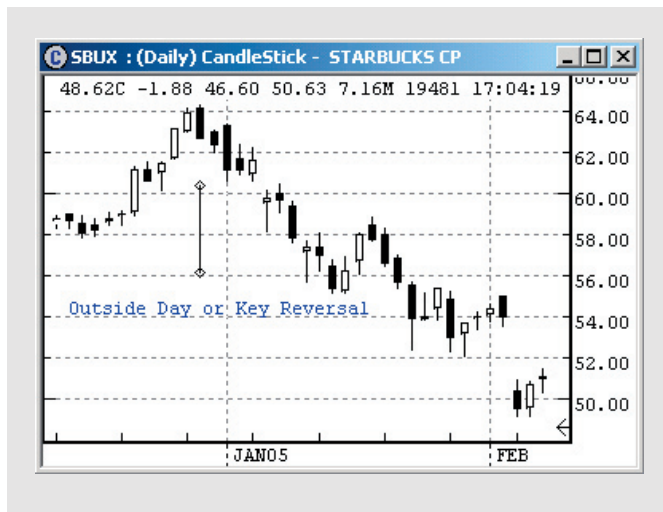
Hello Slim,
Could you please tell me what is meant by an outside day in the stock market?
—John H., via e-mail

Dear John,
An “outside day” is a two-day chart pattern in which the second day encompasses the first day. The pattern suggests a reversal and is most meaningful when it comes after an extended trend and is accompanied by an increase in volume. Another name for this pattern is a “key reversal.” Candlestick variations of outside days are called “engulfing” patterns.

Please refer to the chart of Starbucks (SBUX) below. You will notice that in December 2004 the stock had been in an uptrend, reaching a price of 64. On December 30, the stock opened at a new high but closed the day lower than the low of the previous day. This outside day established the peak of that rally, with the stock reversing into a steep downtrend, losing more than 23 percent of its value. SBUX had just had a three-month rally, starting from a price of 42. So this was a great exit signal for long-term holders.

Outside days also are excellent patterns for traders because they usually offer a relatively close stop-loss point. In the case of SBUX,

if you shorted the stock on the day following the sell signal, the stop would be placed around 64.30, representing (at worst) a two-point loss. That was never threatened on this trade. These types of reversal patterns are relatively rare and highly reliable. I scan for them every day. SFO



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SEND ME YOUR
QUESTIONS!
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SFO Stocks Futures & Options

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