

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 recently heard if you are Series 7 certified, you can have the ability to trade stocks on margin with a 10:1 ratio. - Is this true? If so, how would one be able to do this after passing the Series 7 test? And why wouldn't most traders take advantage of this than getting regular margins?

—Anonymous, via e-mail

Dear Reader,

Your question is really one about "proprietary" trading firms and the large amounts of buying power they offer to traders. A proprietary trading firm is a company that trades for its own account and not for customers. Actually, if a person joins a proprietary trading firm, they can get margins so low that they can trade 25 to 30 times their capital for day trades and get as much as 6:1 on overnight positions.

"Prop shops" generally operate in a format that either requires you to bring in your own capital as security for losses or allows you trade solely with the firm's funds. For many years, all a trader had to do was bring in the prop firm's minimum capital requirement – usually \$25,000 – to get this amazing leverage. However, in recent years the SEC has changed the rules. Proprietary trading firms now require at least a Series 7 license.

The "7" – the exam for representatives of broker-dealers – is a monster. It consists of 260 questions, covers all aspects of the securities markets, trading and securities law. They allow six hours to finish the test. Passing is 70 percent, and it has a relatively high failure rate. There are many classes available, both live and online, which increase the likelihood of passing for many. And you can't just walk into a testing facility to take this exam. You must be sponsored. Many prop firms also require the "Series 63," the universal securities law exam. Some firms even require the "Series 55," a test for equity or convertible debt securities traders.

The reason for tough licensing requirements is that both the SEC and the prop firms want to be sure that you do not approach trading casually and that you know the laws and risks.

If you trade for a propriety firm that uses only its own capital, expect it to be a slow process. Nearly every firm expects you to earn your way to the level where you are trading with significant dollars and margin. Your initial trading unit will be 100 shares. You may be at this level for a month or longer, building your way to a point at which they have confidence in your ability to learn and execute their specific trading methodology. During this learning period, expect little or no compensation. It will mean you'll need to be self-supporting until your success level grows.

If you join a firm where you bring in your own funds, the obstacles to success may be even greater. It will be up to you to find your own trading method, as these firms offer minimal support. Also, figure in a cost for desk space and computers.

There are two sides to getting these very low margin requirements. The downside is many traders and prop shops adopt trading styles that are very active, with trade objectives of just pennies, attempting to get the most use out of the high level of available buying power. Even at less than a penny-a-share commission, funds can disappear very quickly as traders struggle to find their way. However, if you conquer the trading monster and gain the rite of passage to full use of these liberal margins, the rewards can be extremely large. Word has it that there are a select few traders at prop firms who started at 100-share units and now trade in 10,000-share units or larger, earning more than seven figures a year. That'll work!

Dear Slim,

I have learned much about the use of "candlestick" charts and have read Steve Nison's first book. I understand that they are like bar charts, with an added "body" which is a representation of the intraday movement of the stock. I have done well picking stocks using candlestick patterns and find them quite valuable. Will you please explain what a candlevolume chart is and how it may be used? Why would I use this chart instead of a regular candlestick chart?

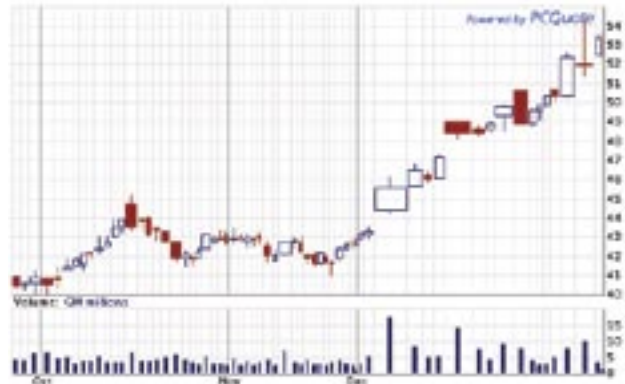
—Cole M., Atlanta

Dear Cole,

A “candlevolume” chart is very much like a regular candlestick chart. Where it differs is as volume increases or decreases, the body of the candlestick widens or narrows. This type of chart gives the observer a clear picture of whether an increase of volume is contributing to the movement of a stock, future or index. In just a glance, the trader can gain confidence as to the validity of the chart pattern.

Refer to the chart of General Motors (GM) in the right-hand column. In mid-October there was a “Dark Cloud Cover” pattern, signaling that a top was at hand. This candle is very wide relative to the rising pattern of the previous several weeks. You wouldn’t have to look at a volume chart to see that a rush of sellers had come in on this day, adding confirmation that this was a negative occurrence. Now look at early December. After trading in a narrow band for a month, the stock had a very wide bar that left a “breakaway gap.” This huge rush of volume set the stock on a dizzying advance that lasted through year-end, with GM gaining around 20 percent from the close of the day it gave the signal.

Candlevolume charts are a great tool. They can be used with charts of all periods. They are especially valuable for intraday charts and will flag a jump in volume that often occurs at the onset of an intraday move in a stock. You can access daily and weekly candlevolume charts for free at pcQuote.com. [SFO](#)



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