

# 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 have been learning to trade S&P Futures on simulated trading software. So far, I have been trying to swing trade because I have a job during the day and can't watch the market all of the time. Also, it seems to be less difficult and less costly than day trading. The stock market didn't have large overnight changes during much of 2005. So far this year, the S&P futures market is having large overnight changes and much bigger moves during the day. I was going to begin trading real money soon. Now I would be afraid to hold a position overnight.*

*After considering the risk and my discomfort, I am thinking about the option of putting my money with a professional who will do the trading for me. Will you please explain what has changed in the market? Why are the swings so much larger? Also, what are your thoughts about the alternative of investing with a broker and letting him do the trading for me?*

*Thank you for your help,*

*—Drew G., Atlanta, via email*

Dear Drew,

I really appreciate your self-awareness and flexibility. The question about moving from simulated trading to real money is presented to me often. Usually, the person is hoping to make it as a full-time trader because he is looking for riches or a way out of his regular job. You, Drew, seem interested in investing your money properly, rather than seeking an escape from your career or the "thrill" of being a trader.

The past two years have brought the narrowest ranges for the stock market in decades. In 2005, there was only a 9.9-percent range in the S&P 500. That is why there was less overnight volatility. This was an anomaly. January of 2006 brought a very different looking market. The year started with a seven-day buying stampede and then reversed downward after investors got a look at a slew of earnings disappointments, potential conflict in Iran, soaring crude oil and gold, and a near panic in the Japanese stock market. The resulting increase in volatility is likely a return to the norm and is what we can expect this year.

If your choice is to invest your money with a professional, be sure you do your due diligence. Choose someone with a successful history. A Commodity Trading Advisor (CTA) may be your best choice as you get to see a disclosure document with the CTA's program description, bio and track record. Also, be sure you are getting a low commission rate. Some brokers or CTAs charge very high rates, which can burn up an account.

Managed futures accounts are high-risk investments. Be sure you appropriate an amount of risk capital commensurate with your financial condition and risk parameters.

Benefits of putting your funds in a managed account include the following:

- 1) Your funds are traded by a proven professional.
- 2) You can participate in multiple markets or multiple programs.
- 3) If the program trades index futures, you may get negative correlation to the stock market, which would protect a long stock portfolio.
- 4) Funds are in your own account, so you get full transparency.
- 5) If you don't like what the trader is doing, you can pull the plug instantly.

Dear Slim,

*I have a question. How can a bankrupt stock be sold to establish a tax loss?*

*—B. Epstein, via email*

Dear B.E.,

There are a couple of answers to this question. First, you need to determine if the bankrupt stock is really worthless. If a company is in Chapter 11 and has gone through a horrible time, the stock may still be trading for a few pennies. In this case, based on the fact that the shares still have value, you would have to sell the stock to take the loss. To do so, you may need to go to a full-service broker, with access to the "pink sheets." If it is not trading anywhere, but the company's "worthlessness" is in question, you would need to

sell the stock to someone else and transfer the stock certificates to take your loss.

If the company has filed Chapter 7, there is no value and no hope of return. You can then take the loss on your Schedule D at the end of the year in which the company became worthless, just as if you sold the shares.

This is my interpretation of the tax laws. You must consult your tax professional on bankruptcy and all tax issues.

*Hi Steve,*

*I love your articles and website. Please bear with me, as I have been trading new strategies.*

*Assuming high implied volatility and an expectation that a stock may be range bound for a few weeks, is it a sound strategy to sell a front-month straddle and cover your risk by using the proceeds to buy a further-out-month strangle? It seems like the graph would be similar to a butterfly except that the wings are different months*

*from the body. This would effectively allow the market to pay for your volatility bet with the strangle.*

*—Chris K., via email*

Dear Chris,

This strategy is a double diagonal. It is essentially a “condor,” which is made up of two vertical spreads. However, you are buying an extra month on the long-sides of your trade. If the underlying security stays in your favorable range, you will make a few more pennies on the trade than if you did it as a condor, with all positions in the same month. However, if the security has a big move, you may lose a little extra based on the additional “time value” you paid for the second-month options.

Your strategy will work best when the implied volatility is much higher in the near-in month than in the second month. However, it’s not likely you’ll find this condition in a stock that is docile enough to remain compliantly in your profitable range. ■

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SEND ME YOUR  
QUESTIONS!  
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