

# 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,

Since you are a coach for traders, what do you think of journaling? A number of people make an annual ritual out of conducting an audit of their trades from the previous year. What are the other values to journaling? Do you use this technique yourself?

-Mark D., via e-mail

Dear Mark,

The value of journaling goes well beyond being able to audit the numbers on past years' trades. Journaling is an invaluable tool that allows one to process their innermost thoughts and feelings through self-dialogue. This type of meditation, that allows a person to look deeper into him or herself and gain clarity on issues, may be helpful in overcoming roadblocks to success. Journaling offers an opportunity for review of the previous day and brings forth personal insights. Then you can let go of what has gone wrong and set an intention as you enter a new day. In other words, make that a new trading day.

Some people resist journaling. They may be uncomfortable getting in touch with real feelings or difficult memories of their past. Or they fear someone will read their private thoughts. And it takes an effort. You must allow time in the morning and/or after the markets close. The following are my list of journaling tips that will help with the process:

**Keep your journal private.** In order to write freely and openly, you'll want to know that it is for your eyes only. Keep your journal with you. You may write in it while still in bed in the morning, on the way to work or back home, at your trading desk or even sitting in a restaurant at dinner.

**Include your trading results.** The stimulus of seeing the numbers will bring forth emotions and thoughts. You'll want to be able to compare results and see that what you are learning is bearing fruit.

**Write down your feelings coming into the day.** Just let the pen touch the paper and write your free-flowing thoughts, expletives included. Write down everything which empties your mind. Be conscious of self-destructive negative language that contains untruths. How do you feel about how the day or week is going? What else is going on in your life? How are you letting these issues affect how you function during the day? How do they affect your trading decisions?

**Highlight your breakthroughs and what you learned.** What are your new insights? What actions can you take to maintain clarity and focus? Make every loss a win as you gain knowledge from the experience!

**Include clippings and hand-drawn pictures.** Paste or draw in whatever will help you anchor a new understanding or revelation. It might be a quote, a chart, a technical tool, or an important story you read in a financial publication.

**Set an intention for the day.** How will you prepare for the day? How will today be different or the same? What are you setting out to accomplish? This is the time to review your rules of discipline. "I will stay on course!"

**Make a statement of affirmation.** Success in trading comes from acknowledging all the parts of you that are *not* about trading. It means that when things go wrong, you will have a core set of beliefs about yourself that will hold you up. Create an inventory of personal traits or attributes; "I am a great father (mother or spouse)." "I succeed at anything I do." "I am generous, I am intelligent!"

Journaling offers the prospect of entering the market day with a sense of direction and purpose, and a clear mind that will allow you to handle whatever challenges may arise. As traders gain clarity, their self-esteem rises, and they feel empowered. Then their intuition is freed, allowing a clear vision into the markets and the opportunities they present. I do my journaling on a columnar pad with plenty of room for notes each day, along with the trading results. Journaling is included in my "six rules of discipline" for traders.

Dear Slim,

I am new to futures trading, coming over from the stock side. Kindly explain if a trailing stop

can be used in mini-futures trading to protect/increase profit when the market is close to the desired exit point and it is clear that the existing trend is still in force. Is it possible to set up the trailing stop at the time of entering the order?

-Ayo K., Houston, TX

Dear Ayo,

You have it right! A "trailing stop" is an order used to protect profits by following the existing trend. For example, if an investor has a long position in a rising market and wishes to protect the gains, he or she enters a stop-loss order with the "stop price" set at a certain percentage below the price of the security. As the price of the security rises, the stop price rises. However, if the price falls, the stop price does not change. Therefore, if there were to be a sizable reversal, he is taken out of position without losing back all of the profit. This frees the person from the need to constantly monitor the trade.

A trailing stop is great when a live broker, who is responsible for the price adjustments, is monitoring the order. However, most online trading platforms do not offer trailing-stop orders for index futures. So, if you wish to use this type of order, you will need to monitor the mini futures and manually change the price of your stop order yourself. If your positions in E-mini are worrying you or it's hard to pay attention during the trading day, I suggest you either sign on to

a proven "auto-traded" system or give up your day job.

Dear Slim,

I have heard repeatedly that it is a foolhardy idea to buy options in the last 30 days of their expiration cycle, because they are at the steepest part of their decay curve and lose value the fastest. Are there times when buying and selling late in the expiration cycle offers opportunities that others might ignore?

-Stephen B., via e-mail

Dear Stephen,

The answer to this question really lies in looking at the type of trader you are. For conservative traders, I agree it is best to avoid buying options during the accelerated decay that occurs in the final month. For these traders, it is best to use the "near-in options" in spreading strategies that take advantage of the decay (theta).

For speculative traders, near-in options may offer the greatest of opportunities. As an example, you see a short-term breakout on a future or stock and you wish to place a trade that you intend to hold for a very short time, maybe less than a day. With 10 or 15 days left in the cycle, the rate of decay really doesn't play a big factor. You will be able to take advantage of the improved leverage gained in using the lower-priced near-in options. When you get to the last few days before expiration, however, buying the near-in options is a pure gamble. **SFO**



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