

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!



Hello Slim,

My trading system is based on pivot points. However, since E-mini S&Ps are an electronic market, open just about 24-hours a day, I don't know where to start and end the day for the calculations. Can you help?

–Phil G., via email

Dear Phil,

Pivot-point analysis is a method of finding chart reversals. A pivot point is the average of the high, low and close of a bar on a chart. It is said that if the next bar goes through the pivot point, it becomes the support or resistance.

There is a five-point pivot point system that also uses a support and resistance point along with high, low and close to find the pivot point. For a description of this method, go to www.investopedia.com. For a pivot point calculator, go to www.piptrader.com.

Your question is about identifying what closing price to use in the calculation, since the E-mini market trades around the clock. I use the close of the "pit" trading session on the Chicago Mercantile Exchange, when 99% of the volume on the stock indexes is traded. But you can use any close.

Dear Slim,

I want to focus on day trading stocks that are trading between \$35-75 and have a daily trading range of about 2 to 3 dollars (and of course nice volume). How would I go about finding these stocks?

–Eli, via email

Dear Eli,

Building a trading universe of stocks that are medium-priced with relatively high volatility will give you a good bang for your buck. I approve of the approach, assuming you have the stomach for it.

The easiest way to find the stocks that meet your criteria is to use a "stock screener." Yahoo Finance and MSN Money both offer extensive screeners at no cost. There are also others available on the internet.

Dear Slim,

I have been day trading crude oil futures for some time. I hold positions for maybe less than 30 minutes. I try to make \$0.30-.50 on a trade and not to lose as much when I am wrong. I use tick charts with stochastics and three-minute charts. My problem is that I'm not consistently making money. I have about an equal number of winning trades and losers and my losing trades are greater than my winners on average. How can I improve this situation?

–Stewart J., via email.

Dear Stewart,

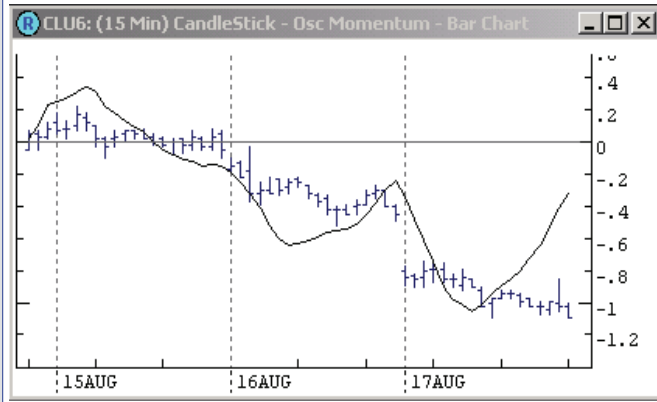
You describe a common problem for day traders. Essentially, you are trading the microcosm of the crude oil market, trying to profit from the "noise" in the market as it fluctuates based on the whims of traders — quite a challenge. It is possible to make this trading style work. You may just need to adjust your method a bit.

I suggest that you also look at longer charts to establish the trend of the market. This will help you adjust your market bias, improve entries and hold winners longer. Based on the longer chart, you might only take long trades or short trades, using your tick or 3-minute chart for entries and exits.

Please refer to the intraday crude oil charts on the following page. The first chart is a 15-minute bar chart, from August 15-17, 2006, with a "momentum" index overlay. The second chart is a 3-minute bar chart with a slow stochastics overlay.

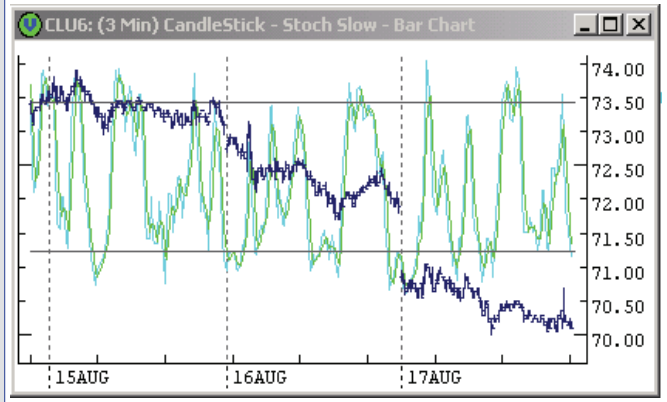
Using the 15-minute chart for your trend, you can see that the first day-and-a-half on the chart was in a downtrend. This is when you want to take only short-side trades. Now look at the 3-minute chart for the same period. There were six occasions when the slow stochastics neared the overbought line and the market turned lower. If you sold on these signals and cov-

CHART 1: Intraday Crude Oil 15-Minute Chart



Source: Neovest

CHART 2: Intraday Crude Oil Three Minute Chart



Source: Neovest

ered all or part of your position when the market got oversold, you had some nice trades without getting threatened. This 3-minute chart is a guide for entering trades on "counter-trend" moves.

Also notice that the 15-minute momentum indicator turned upward in the middle of August 16, with the 3-minute chart giving a nice long-side trade. It is clear how a trader can use these two charts together to trade in both directions.

This method can be used for any security and any holding period, with an infinite number of combinations of charting tools. For swing trades, with a holding period of several days or longer, use daily charts for the trend and 15-minute or hourly charts for entries and exits.

This method is a lot like what a surfer does as he paddles out in the vastness of the giant ocean, passing on the waves and locations that look like trouble and waiting for just the right wave for a safe long run. ■

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SEND ME YOUR
QUESTIONS!
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