

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 was injured at work and have to find at-home employment. I have been an investor and have always been interested in trading. I have made up my mind to start a trading business. I'm interested in a full-time day or swing trading career. I've been reading up and have learned a lot, most importantly that I desire specialized training: a trading school or coach. How should I proceed to insure my success?

*—Joel M., Redwood City, CA,
via snail mail*

Dear Joel,

There are so many trading courses and workshops out there that I couldn't begin to steer you towards a fitting instructor or class.

You've already done a lot of work on your own — it's time to develop your own trading style and method. This may seem frightening, but you might be ready to start trading live. Experiment in several markets and plan on spending some money in this time of discovery. Don't spend a long time paper trading; you'll learn faster with real money on the line. The markets will be your best teacher, as long as learning, not making money, is your goal.

Your desire to have a trading coach is a great instinct, but I don't think the time is right. For a coach to be of help, you should have months of live market experience and at least a sense of your favored market, style and method. You will have experienced your emotional triggers and obstacles, providing a path for the coach to guide you towards a successful trading career.

Before you begin, be certain to have the financial wherewithal to keep the pressure off of your learning process. Start with a minimum of a year's living expenses and a well-funded trading account. For an excellent overview on beginning a trading career, see Darrell Jobman's article, "So, You Want To Be A Trader?" in the September 2006 issue of SFO.

Dear Slim,

How does the average investor invest in specific commodities without trading futures contracts? Are there any stocks or ETFs that track specific commodities?

Thank you,

—Trying to cash in in NJ, via email

Dear Trying,

Commodity based ETFs might be the biggest growth area in securities trading today. ETFs on stock indexes have been around for a few years, including those for the NASDAQ (QQQQs), S&P 500 "SPYDRs" (SPY) and the DJIA "Diamonds" (DIA). This year brought commodity ETFs with the launch of Gold (GLD), Silver (SLV) and Oil (USO) products. Rydex introduced ETFs on currencies (British pound (FXB) and Euro currency (FXE)). It won't be long before there are ETFs on every commodity.

Dear Slim,

I have noticed that some equity options have several different symbols for a given month and strike price. Specifically XTO: There are two symbols for the Nov. 45 call, XTOKI and XTWKI, with a premium difference of about one dollar. I have looked for an explanation but have not found one. Can you shed any light on the subject?

—Robert B., via email

Dear Robert,

Occasionally, a corporate event makes it necessary to adjust the listed options in a security.

In the case of XTO Energy (XTO), the company distributed units of beneficial interest of Hugoton Royalty Trust (HGT). The ex-date was April 24, 2006. The options were originally issued including the security that was spun off. Therefore, they must continue to reflect the proper number of shares of XTO and HGT and some cash as the deliverable securities.

New options in XTO Energy are listed without HGT. Thus the stock has a slightly lower value than before the spin off and options are priced accordingly.

Dear Slim,

This year, in the January issue of SFO, you said: "I'll call the low in November, with the DJIA down about 27 percent from its peak, at 8,303." Do you still think we will get to 8,303 by November? It seems like quite a collapse in such a short time. Just wondering if you are standing by this prediction?

I am a big fan of your column. I wish they gave you even more space!
—Edward D., via email

Dear Edward,

It figures that in August, with the stock market seemingly holding together, someone would hold me to the fire.

My forecast of a spring high for the stock market was well-timed, though the Dow Jones Industrials, the best performing index, surpassed my projected peak by about 290 points. The following decline was only about eight percent for the Dow and S&P 500, which, as of this writing in late August, makes up the entire range for the year. The NASDAQ and the transportations averages, however, have both plunged over 17 percent from their spring highs.

The real estate market is in bad shape, with housing sales and prices falling dramatically and inventories of unsold homes at a decade-long high. This malaise is spreading to the financial sector, which makes up 20 percent of the indexes. Capital One Financial (COF) and

H&R Block (HRB) have taken hits due to rising delinquencies in credit card debt and mortgages. So the financials, the backbone of the stock market, are at risk.

With real estate troubles and high energy costs weighing on the economy, the prospects for a recession in 2007 are growing. Oil prices might retreat a bit, assuming Mideast tensions don't escalate. However, reversing the downside direction of real estate will be like "turning a super tanker."

The stock market began to discount the economic trouble well in advance, as seen in May-June declines. Interest rates reflect economic troubles, with 10-year notes trading under 4.80 percent, bringing an inverted yield curve. The cyclical patterns for the stock market, which brought me to my predictions last January, are still in place. Thus, I still hold that the last few months of 2006 have significant risk for the stock market.

Because the broad market over performed this year, my original prediction of 8,303 on the DJIA is an unlikely target. It wouldn't surprise me, however, if the broad indexes, in a second downside leg, caught up with the declines already in place for the junior indexes. That would bring a decline of 14 to 17 percent for the first real correction in four years, pushing the Dow down to 1,000 or lower in the next several months. Check with me in the January 2007 issue of SFO for an update and my predictions for the coming year. ■

This Article was printed in the October 2006 issue of SFO Magazine.



SEND ME YOUR
QUESTIONS!
AskSlim@sfomag.com or
Ask Slim
SFO magazine
3812 Cedar Heights Drive
Cedar Falls, IA 50613

SFO Stocks Futures & Options

Provided by permission of SFO Magazine. Originally published October 2006.
© 2006 Wasendorf & Associates, Inc. • 3812 Cedar Heights Drive • Cedar Falls, IA 50613