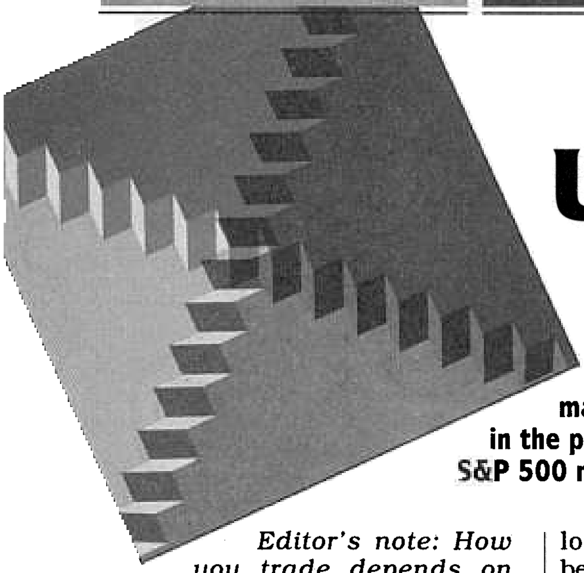


Upstairs, downstairs

Floor traders and upstairs traders may prowl the same markets, but they work in different worlds. *Futures* spent time in the pits and on a trading desk to capture a day in the life of the S&P 500 market from both sides.

Editor's note: How you trade depends on where you are, either in the pit or by a computer screen. Two Futures *editors recently spent a day among the two types of traders — Mark Etzkorn with S&P floor traders Joe Slott and Keith Cook, David Nusbaum with Linda Bradford Raschke of LBR Group. Here are their twin accounts of what it was like to trade S&P 500 futures Dec. 8, 1995 (All times are Central Standard Time).*

Two views of the market

By David Nusbaum & Mark Etzkorn

It is only appropriate to start a day of pit watching at Lou Mitchell's restaurant. The noisy diner with its double-size eggs is a popular breakfast spot with traders from the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT), each a 10- to 15-minute walk away. At 6:45 a.m., it's already packed.

Among the pit dwellers sprinkled throughout the crowded room is Joe Slott, a local in the CME's S&P 500 futures pit. Slott (acronym SLOT), 38, is a 13-year veteran of the pits and has done "a little bit of everything:" runner, phone clerk, out trade clerk, broker and now full-time trader. After a stint as a filling broker in the S&P from mid-1991 to the end of 1993 ("those are the years I lost all my hair"), he decided to become a local. The transition was fairly smooth, which Slott attributes to having traded on and off since 1983. "I learned how to take a loser before I entered the S&P pit," Slott says. "[That's] 90% of the game."

Slott has found trading a welcome change from the stress of filling orders. "I find being a local very relaxing, like playing a game," he says. "You trade at your own speed. If it gets to busy, you get flat, put your hands down, collect yourself, and when you're ready, you begin again." Slott has never had a losing month and few losing weeks. Losing days come with the territory.

●●●●●

The Raschke home in Marlton, N.J., is about 800 miles east of the Chicago trading pits, but a million miles away in mood. Across the Delaware River from Philadelphia, the wooded suburb is almost rustic, if not for the subtle affluence and occasional golf cart crossing signs.

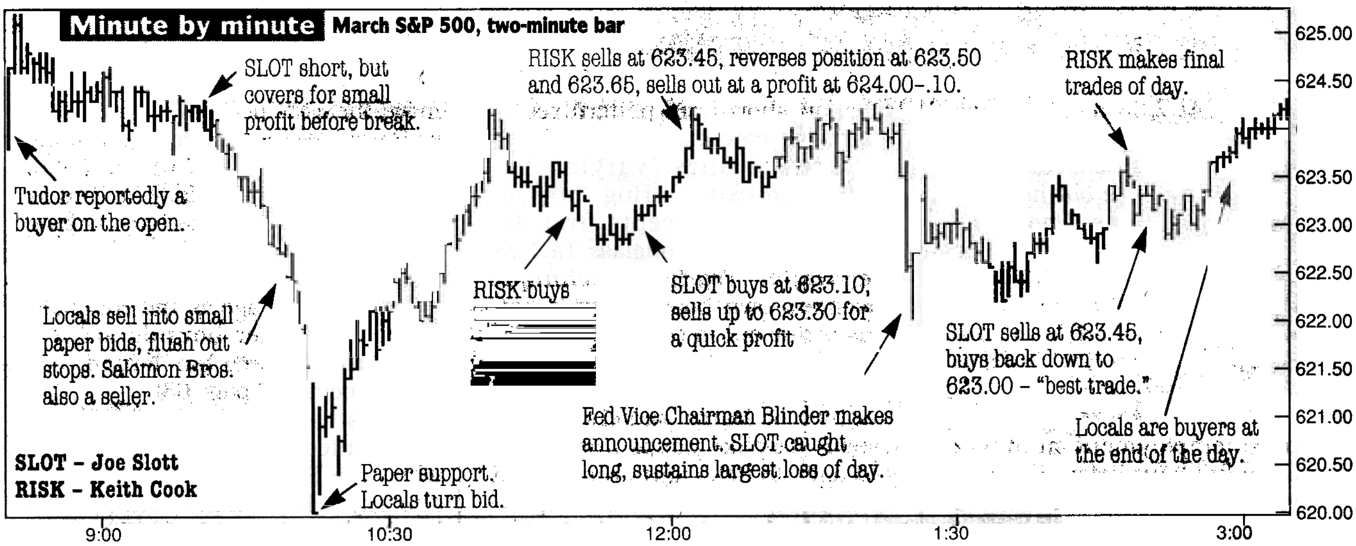
Two hours before the 8:30 S&P open, Linda Bradford Raschke has already gotten in an hour of interval training. Sitting by a screen all day offers even less exercise than standing in a swarming mass of floor traders, while the 36-year-old Raschke, who left the floor after a 1986 horse riding accident, also must guard against a relapse of chronic fatigue syndrome. She may miss the floor more than she knows, judging by her favorite exercise, tae kwon do (she's a blue belt). Nothing relaxes, she says, like kicking, punching and shouting at the top of your voice.

After coffee and donuts with husband Skip and seeing seven-year-old daughter Erica off to school, it's only a few steps from the kitchen to the trading room where trading partner Rick Genett and Raschke manage LBR Group's $30 million. Mercifully, it is nothing like the windowless, cinder block basement office Raschke used for years. A fire burns in the fireplace of the high-ceilinged, coral wallpapered, 30-by-30 room. It is dominated by a long, horizontal window set high enough to block all signs of neighboring houses, revealing only treetops and blue sky.

Beneath the panorama a row of computer screens and a table run the length of the room. Raschke and Genett camp out at opposite ends and await the open. (Genett, 37, is a Wisconsin native, his wife is a ballerina in the Philadelphia Ballet.) Raschke keeps a daily log by hand, jotting down highs, lows and pivot points. She also studies the nightly trading sheet she and Steve Moore of LBR Moore Trading Inc. put out, showing pivot points, trading patterns, custom oscillators and Raschke's own comments.

At the bottom she's written, "Today marks the one-year anniversary of the current bull market in

Joe Slott



A few representative trades of floor traders Joe Slott and Keith Cook highlight some of the day's more notable moves. Source: FutureSource

stocks. This bull market has persisted without even a 3% correction!"

●●●●●

Slott usually arrives at the CME around 8 a.m. (frequently biking, even in winter, from his home in nearby Little Italy), a half hour before trading commences. He first checks his statement and his out trades to make sure his money is right from the previous day. After clearing up any "clerical errors," he punches up a short-term chart of the previous day's S&P action (five-minute bar) to see possible support and resistance levels for the current day. "I might write down two or three numbers I can trade around," he says, comparing the levels he looks for to Market Profile value areas. He also makes a quick check of the bond market and what the S&P did overnight.

Slott usually stays in the pit all day, trading in one-and-a-half- to two-hour stretches, taking perhaps 30 minutes for lunch and a 15-minute break in the morning and afternoon. "I'm basically there everyday, buzzer to buzzer, just trying to make a living," he says.

Linda Bradford Raschke

Slott has studied fundamental and technical analysis for years but is philosophical about their importance to his day-to-day work. "I'm a student of the markets, I enjoy talking markets — I can't help but have opinions — but my income is made trading," he says. "The truth is, whatever analysis I do in the market is pretty irrelevant. Over 90% of my income doesn't require charts or analysis. I'm just reacting to the order flow. That's the bulk of the typical local's income."

●●●●●

Our second floor trader, Keith Cook (acronym RISK), 35, followed a path similar to Slott's. Starting out as a runner in 1984, he became a filling broker in 1987 (working through both the 1987 and 1989 crashes), traded for a year and a half, took a leave of absence and began trading for himself in August 1995.

Cook describes himself as a small trader — a "true scalper" — trading about 30-40 contracts per side each day. He has broad guidelines, but no hard and fast rules about trading limits. Occasionally he'll trade a 10-lot, but mostly trades five or fewer contracts at a time. He sometimes adds on to winners, but never losers, and gets flat by the end of each day. He averages around 20 ticks ($500) on a winning day, 40 on a good day. He tries to get out of losers after three to four ticks and looks for around 10 ticks on a winner.

Unlike Slott, Cook avoids the opening and often the close. He usually starts trading around 9:30 a.m. Because out trades must be reconciled before the next trading session, Cook calls his trade checker from home around 8:00 a.m. to find out if there are any problems. Like Slott, he lives in Chicago, on the north side, about a 30-minute train commute to the CME.

"I skip the first hour because I like to warm up, and I think it's better to let the market settle down a little bit," he says. After resolving any outstanding problems, he gets himself "psyched up" for the day's trading. "If I go in there with any kind of a negative attitude, it generally rubs off on my trading," he says.

Cook has consulted charts in the past, but now considers them a crutch that can bias trading, causing you to hang on to a loser because you think the market will obey a technical support or resistance level. Although (like Slott) he was attracted to trading because of the "control factor," Cook says trading is not without stress — just a different kind of stress. He describes being a local as "you against yourself. I control everything. When you fill, you're at the mercy of your customers."

●●●●●

Bullish stock and bond markets were the rule in the days preceding Dec. 8. Inflation seemed dead, the economy looked sluggish and Washington slowly approached a balanced budget — all conditions nudging the U.S. Federal Reserve toward cutting rates. March T-bond futures (up 22/32 to 120 22/32 by 8:25 a.m.) reflected the common belief that Fed Funds rates would fall 50 basis points by spring, adding momentum to stocks.

This Friday morning's economic numbers fit the scenario nicely. ➠

At 7:30 a.m., November non-farm payrolls and unemployment rate numbers came out near expectations: Unemployment rose 0.1% to 5.6%; the 166,000 net new hires looked high, but reflected an extra week of data.

●●●●●

The unemployment numbers come out a full hour before the S&P pit opens, but Raschke sees March Eurodollars reacting strongly and adds to LBR's existing short position. In the minutes after 7:30 she sells 100, then 100 more and is filled within two ticks of what will be the day's high.

"Well, that was easy," she says.

But the trade had less to do with numbers than with price patterns (see "First cross," below). Raschke ignores fundamentals and concentrates on short-term pattern recognition and catching two- to three-day price swings, varying her entries and exits during "buy" or "sell" days — concepts first described in George Douglass Taylor's *The Taylor Trading Technique* (Raschke's own book on price patterns is due out in early 1996).

Six computer screens face Raschke, some running Aspen Graphics or Barry Vaniel's Insight system. Raschke jumps from weekly to daily to tick charts throughout the day, but the one screen reporting high, low, last and closing prices remains constant and directly in front of her — a sort of Rosetta Stone linking Raschke to her floor trading days 15 years prior at the then-Pacific Coast Stock Exchange .

"It's bad to flip through charts during the day," she says. "I try to look at quotes, otherwise I'll start playing."

Raschke and Genett talk about the day ahead for stocks. After a big move the S&P needs to consolidate, so Raschke expects sideways trading with a downward bias. With a hint of glee she points out a daily S&P chart with a few eager price bars poking clear out of a Keltner Channel (Raschke uses a 20-period exponential moving average as the channel's center, its outer bounds are 2.8 times the average bar length; see "Short memory," page 63).

"I was having fun the other night and wanted to see what happened when the S&P gets this extended," she says. Her visual search took her back to Aug. 13, 1987 — just weeks before the big crash. How far might it fall this time?

"Well, it's pulled away by...[she pauses, then holds up two fingers] one inch."

Meanwhile one of the Raschke's small menagerie of pets, a six-toed cat named Tony (another cat, Joanna, and a Dalmation, Axel, also appear), climbs the row of monitors, selects one and falls asleep.

●●●●●

At 8:15 a.m., the S&P 500 pit is not even half full. Traders and clerks mill about the perimeter of the pit, checking last minute out trades, making small talk and sharing stray bits of market news.

By 8:20 a.m., Joe Slott is in the pit, chatting with other traders. (Keith Cook will start later than usual, around 10:00 a.m.) The phone banks surrounding the pit are manned by harried-looking clerks and brokers who check their lines, take late orders and give instructions to runners.

The unemployment report was close to expectations, and although a full crowd will be on hand to "trade the number," it is not expected to have much of an impact.

Traders finally pack the pit full in the last five minutes before the opening. They study the brokers rimming the pit, looking to see who's bidding and who's offering. At 8:30, the bell clangs and the shouting begins.

●●●●●

March S&Ps awake at 8:30 with a bang, up a dollar (a full point) at 624, and quickly approach yesterday's high. Raschke offers 25 at the market; six minutes later she buys them back.

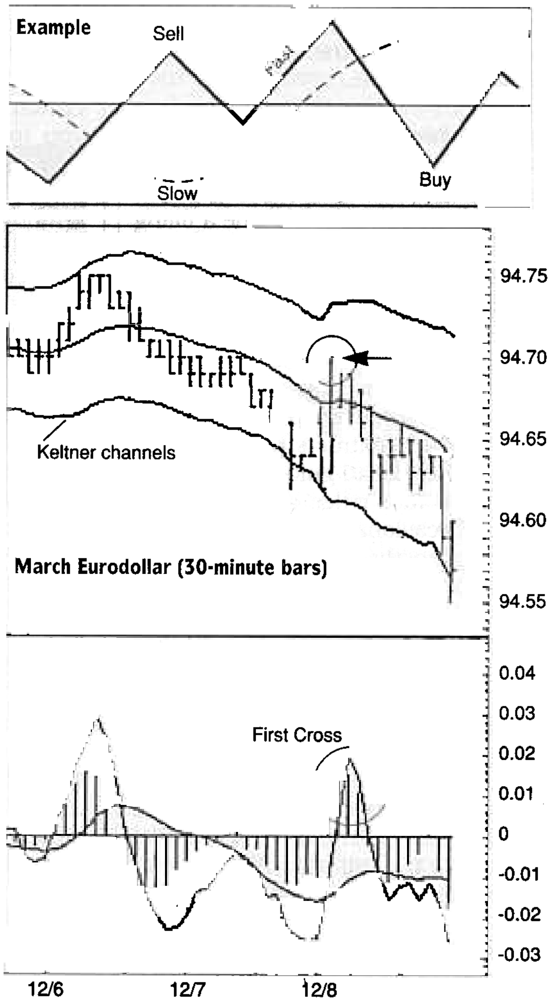
"The opening was overdone. They're going to diddle around here a little bit. It's good to start the day with a quick scalp." The take: eight ticks, or $5,000. "You probably won't

First cross

Raschke's Eurodollar trade was triggered by a basic but favorite oscillator pattern called a "first cross." (Here the "fast oscillator is a 3-10 dual moving average oscillator, while the "stability of trend" line, or slow line, is a 16-period moving average of the 3-10. Raschke adds that oscillators are only useful in swing trades with certain patterns.)

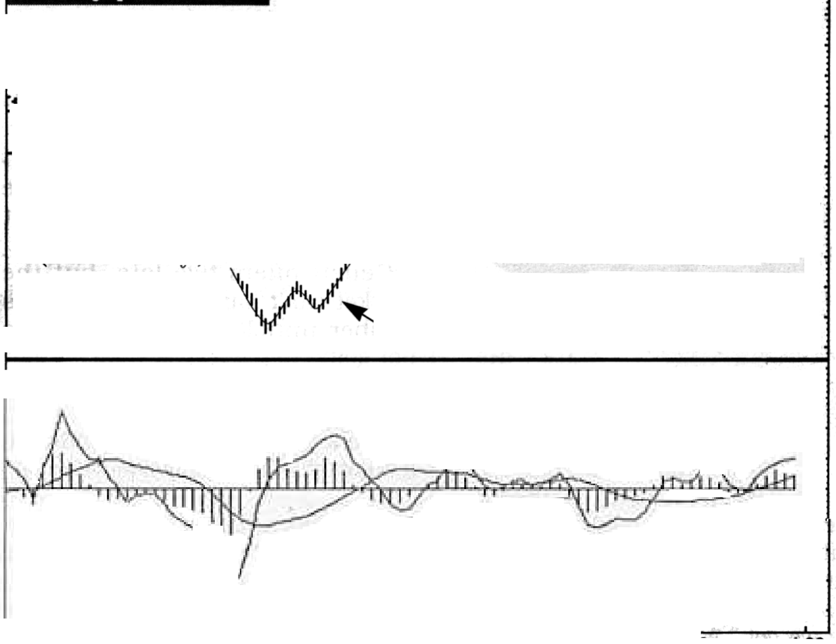
The strategy is to sell the first peak in the fast oscillator after the slow line crosses below zero for the first time. (For a buy signal you would buy the first pullback in the fast oscillator once the slow line crosses zero for the first time.)

Raschke's notes:
The corresponding price pattern usually is the first lower high (for a sell) or first higher low (for a buy). The first peak or pullback tends to be the best; probabilities fall off with later moves. We essentially get "pieces" of the trend (here simply defined by the slow line above or below zero) and exit before the trend starts turning. Good for catching steady profits, not runaway moves.



Source: Aspen Graphics

Day planner



nowhere

Rick Genett

Keith Cook