

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.

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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

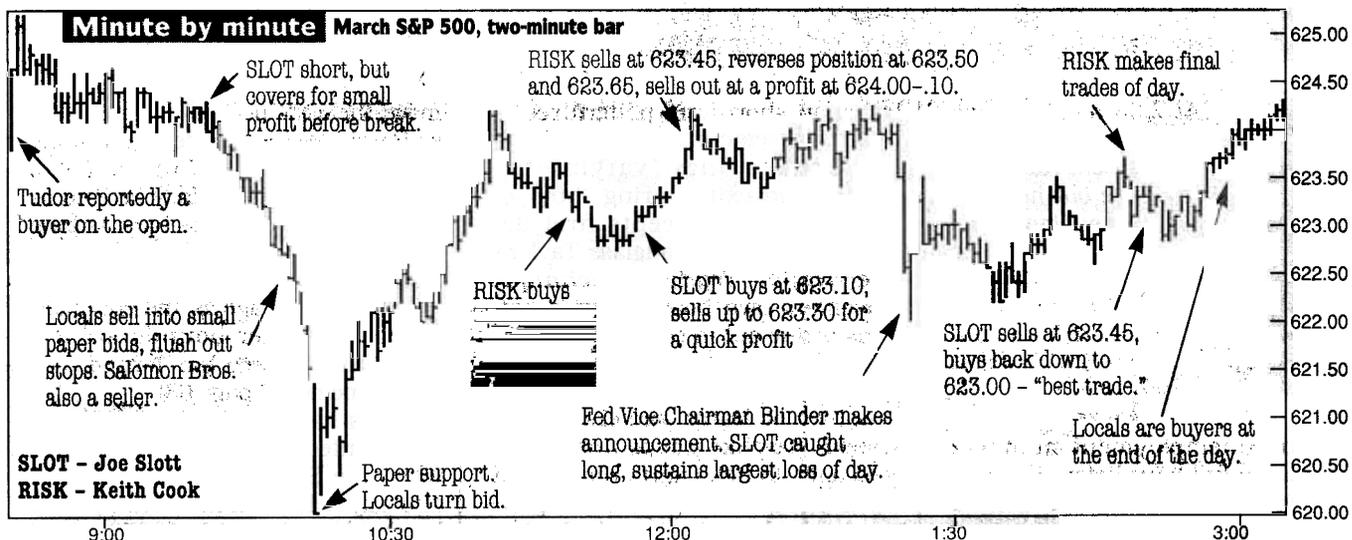
trading room where trading partner Rick Genett and Raschke manage LBR Group's \$30 million. Mercifully, it is nothing like the windowless, cinder block basement office Raschke used for years. A fire burns in the fireplace of the high-ceilinged, coral wallpapered, 30-by-30 room. It is dominated by a long, 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!"

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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."

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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."

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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.

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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 concen-

trates 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.

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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.

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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

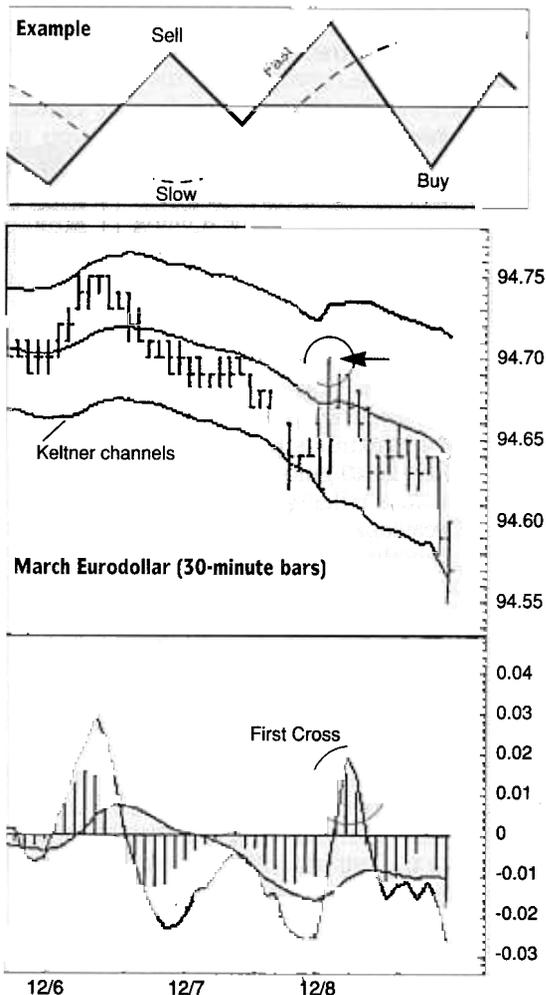
First cross

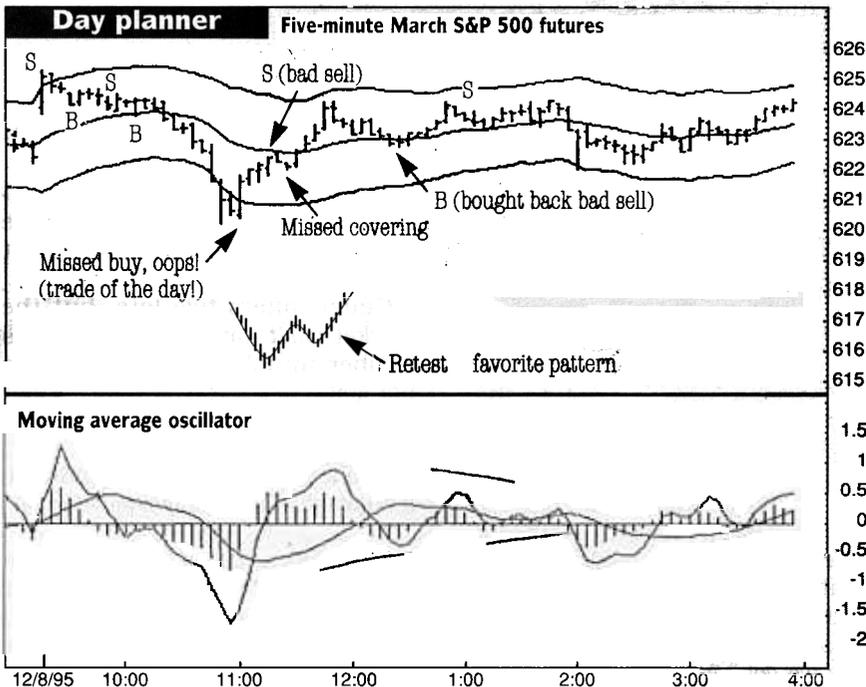
Raschke's Eurodollar trade was triggered by a basic but favorite oscillator pattern called a "first cross." (Here the "fast oscillator is a 3-10 dual moving average oscillator, while the "stability of trend" line, or slow line, is a 16-period moving average of the 3-10. Raschke adds that oscillators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





Raschke's notes on her trades for Dec. 8: two good scalp trades and a lesson in the dangers of talking instead of trading.

Source: Aspen Graphics

see [625] again all day," she adds.

Later releases only add to the rate cut theory. The 8 a.m. October wholesale inventories figure shows a faster inventory buildup than expected. At 9 a.m., October U.S. single-family home sales are reported at 673,000 — well under forecasts even as mortgage rates fall.

After the initial pop in the S&P (Tudor Investments is a rumored buyer on the open), the market quickly dies down, with very little paper apparent in the pit. The high of the day (625.20) has come and gone.

Slott, except for exiting an outstanding position in the soon-to-expire December S&P contract (he's flat at the close "98% of the time"), doesn't trade until almost 20 minutes have passed. He describes himself as a small "in and out" local, averaging 100-150 contracts

per side daily and, like most traders, tries to get out of losers quickly. He "can count on one hand" the number of times in the last two years he's let a market go against him more than 50¢.

"I'm sort of just standing there," he says, "watching, watching, watching — I might not do anything for 10 minutes — and then I'll see what I perceive as an inefficiency in the market, and I'll trade a three-lot or a five-lot, or maybe if I think it's really good, I'll trade a 10-lot. And then I'll get out pretty quick — 30 to 60 seconds." He typically takes a profit after a two- to eight-tick move in his favor, but occasionally rides trades longer.

LBR sells 25 more March S&Ps at 624.40 minutes after the new home sales figure. She's trading small, scalping a few ticks to get "a feel" for the market. But it goes nowhere, and six minutes



Rick Genett



Keith Cook

later Genett calls to buy them back. Their broker, however, only buys back five contracts before prices bob back up. Raschke's instinct is to close the trade immediately. "I don't want to try to turn it into a 50¢ profit, I want to correct it."

Genett, meanwhile, is on the phone with the broker. "When I'm only looking for 40¢, I want you to work hard for me," he says. "When you're doing short pieces it's a different mindset."

He hangs up. "When you do this you need rapport...Off the floor, this is one of the problems you have trying to scalp," he says. Still, he and Raschke support neither computerized trading nor upstairs traders who complain of bad fills.

"They would be floored at the slippage we get sometimes," Raschke says. "[But] that's the way it works, and if you're going to get stressed out you are in the wrong business."

The talk of broker rapport and bad fills animates Genett and Raschke, who share stories of slippage, brokers missing fills, traders using code names to spread business around or putting their broker "in the penalty box." The conversation is lively, but over Raschke's shoulder a computer monitor shows the S&P screaming down four full points to 620.

"You can either trade or you can talk," Raschke says later. "It's hard to do both."

At 10 a.m. the S&P market, trading around 622.50, is much choppy. Locals have been pushing the market lower, "fishing" for stops (yesterday's close was 622.40).

At 10:07, the selling heats up: The market plummets to 620.80...620.30. all hands are palm-outward...down to 620.00. Some paper support comes in at 620.00 and the market immediately bounces back to 620.50, then rallies to 621.30. Salomon Brothers is the most noticeable paper seller on the break.

Although Slott was short at the 10 a.m. break (a "free fall," he says later), he covered his position quickly and made only a small profit.

The market is calm again by 10:30. Brokers turn their

► backs to the pit or stare into space. At 10:43 Slott takes a 15-minute break; Cook stays.

From 11:30-11:45, Cook buys at 623.30, 623.25 and 623.10; and sells out at 622.90, the worst trade of his day. From noon to 12:15, he gets short at 623.45, buys back at 623.50 and 623.65, reverses his position, and sells out his longs for a profit at 624.00 and 624.10. This is the trade that puts him up for the day.

Between 11:45 a.m. and 12:00 noon, Slott buys 20 contracts at 623.10, scratches a few and sells the rest out up to 623.30. Later in the same rally he sells at 623.65, buys back at 623.85, gets long additional contracts and eventually sells them out at 624.15 for a profit.

Although Cook and Slott frequently show bids and offers, they and the other locals spend a lot of time standing around and waiting for opportunities. No one wants to give up the edge. Not every hand wave and shout results in a trade.

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Raschke has a new "toy," a squawk box broadcasting live commentary from the S&P floor. Handy during the open or fast markets, it indicates the quote screen is consistently four ticks behind the real market. A little past 10 a.m., however, she turns it off.

"I don't want to be influenced if I hear Morgan Stanley is a big buyer or seller," she says. "It can make you waver." There's also a stereo and ample supply of CDs in the room, but Raschke, who once studied piano and musical composition, has been trying

to eliminate distractions.

Like music, the markets are all patterns and variations. Raschke sees one now, a "fakeout-shakeout" pattern in February gold, and buys 50 at \$390.90. She also has another go at shorting the S&P. Half jokingly, she says "Let's see what kind of slippage we get." A minute passes, then the S&P quickly drops about 50¢. A minute later the call comes from the broker; she has been filled in pieces all the way down.

"How could I get filled at the low tick?," Raschke says aloud to the screen. "No way. I should have put a limit on that." She explains that while smaller traders can use resting stops, she can get creamed trying to move size in fast markets.

Undaunted, Raschke doubles her long gold position (and once again later). Within 30 minutes the contract hits its high for the day at \$391.80, eventually closing 50¢ above her first entry price. "That's one of the advantages we have over an S&P local," she says. "I can go anywhere my heart desires."

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Occasional comic relief comes from Genett's attempts to take profits on a large long lumber position he established weeks back while Raschke was out of the country.

The trade is a money-maker, but Raschke can't help some good-natured needling.

"We try not to trade thin markets," she says. "If you want to take profits, always offer some out above the previous day's close."

Genett offers five lots, but the market can't handle it. He watches lumber uptick and says "They're not going to get any of mine." Later he resorts to selling one contract at a time to get better prices.

"I'm a believer in diversification in a big way," Genett says.

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The biggest bomb to hit the markets on Dec. 8 wasn't unemployment or any other number. A little past 1 p.m. news spread that Federal Reserve Vice Chairman Alan Blinder had proclaimed that the markets might be overly enthusiastic about a rate cut at the Dec. 19 FOMC meeting. Once uttered, these words became a windshield, while unlucky traders long the Eurodollar were just so many bugs.

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At 1:13 Raschke announces that something funny has happened. Bonds are falling out of bed and, remembering LBR's short Eurodollar position, she turns the squawkbox back on and says excitedly "Oh, I'm not going to cover this short." A minute later she puts a bid out for 100 Euros at 94.56. "Just in case it gets overdone you have to have resting orders," she says.

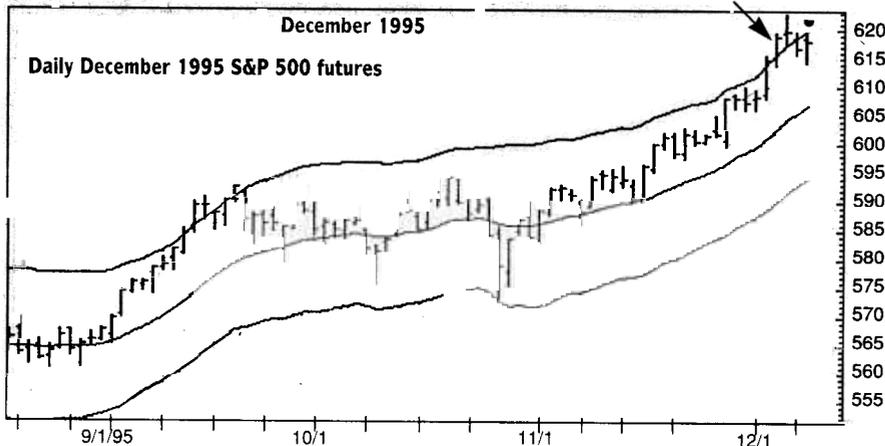
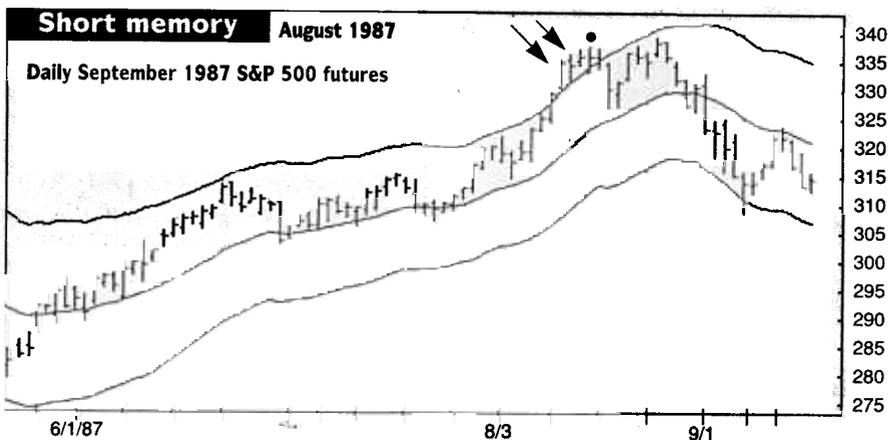
A 1:30 a phone call finally reveals that Blinder did it, and within 15 minutes LBR's buy order is filled one tick above the day's low, locking in a \$30,000 profit on the 100 contracts she sold just after the open. LBR still carries a longer-



Raschke and Tony



Slott



Raschke notes similarities between how the S&P reached highs in late August 1987, seven weeks before the crash, and current price action in the December contract.

Source: Aspen Graphics

term short Eurodollar position over the weekend, however. "The high made on the opening bar hasn't been taken out — you have to be short on the close," Raschke says.

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Even locals can't always maneuver easily in the market. "Sometimes you get stuck — you can't get out," Slott says. "You get burned for \$1 to \$1.50 because the market just hits an air pocket."

Prompted by the Blinder blurb, at 1:15 the market goes into a brief, but violent, tailspin, dropping two points (\$1,000 per contract) in less than two minutes, then bounces back up one and-a-half points in the next two minutes.

Slott, like many locals, is caught off guard and long in a two-point break, suffering his biggest loss of the day. "This is when the local is at the mercy" of outside forces, he says. Not many traders can closely follow the news that scrolls high up across the wall of the trading room — they're too busy watching the brokers, the bonds and the cash.

In the last 90 minutes of trading, the market sustains a slow, local-fueled rally. Cook trades a little more from 2:00-2:15, while Slott

has his "best trade" from 2:00-2:30: He gets short at 623.45 and buys back his position down to 623.00.

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With the markets all closed, the highlight of LBR's day is clearly the Eurodollar trade, although Raschke likes her first S&P trade: "We got out at a price even locals didn't get."

LBR's last S&P sale of the day is losing money, but Raschke dismisses the 25-lot trade as small and talks of the large short position she'll establish next week. The NYSE cumulative tick chart has been negative all day — amazing during a huge bull market. She checks several dozen individual stocks to see if they are buys or sells. The market is climbing a "wall of worry," she says, wondering what will happen if it doesn't get a budget agreement, or even if it does.

"When the market has nothing positive to anticipate it gets sloppy and ready for a fall," she says.

While Genett updates 43 pages of bar charts by hand in his Security Market Research book, Raschke talks about more patterns with names like "The 3 O'Clock Jiggle" and "Turtle Soup," and about simplicity.

"You'll laugh, but I have about three basic patterns I've been trad-

ing for 15 years. It's so weird that it doesn't change. [But it shows trading] is not a question of having the fastest computer."

When another trader calls Raschke sums up the day: "We had fun."

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After the trading session, both Cook and Slott are composed and relaxed, although neither characterizes the day itself as relaxing. Slott, who spent about an hour total out of the pit all day, refers to it as a "bad trade...a locals nightmare."

He states matter-of-factly he broke all his rules today: He over-traded (180 per side, compared to an average of 100-150), let a loser run and initiated a 20-lot position. Although he was down 160 ticks at one point, he rallied to end the day down only 90 (-\$2,250).

From 10 a.m. to 3 p.m. (with one break from 12:15 to 12:45), Cook traded 13 contracts per side, well below his 30-40 contract average. He did all his trading between 11:30 a.m. and 2:15 p.m. He got in a hole early (down 17 ticks), but ended up making 10 ticks (\$250) on the day.

Noting he "didn't want to push it," Cook says he was wary of getting caught in trading "vacuums," where, at the end of a break or rally, the market screams around the other way, whipsawing those traders who had jumped on the bandwagon.

Except for a minute to recap trades, make sure they're flat and turn all their cards in, for Slott and Cook the day is done.

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The regularity, some might say monotony, of floor life can be a grind, hastening the burnout all too familiar to those on the floor. Contrary to glamorized accounts, life for most locals is a matter of showing up every day and standing in a crowded pit, shouting at the top of their lungs for six or seven hours to catch a few ticks here and there.

Self-employment and a relatively short workday are more than offset by the realities of risking your own money with no guarantee of profit: Trading is the one job where you start the day looking to make money to buy a new sofa and end the day selling your old sofa to cover your losses. It's a game only for those who love the game itself. FM