BRIGHT Q&A

Continued from page 35

going to be like, but I know that in the last few minutes of trading before the closing bell, he gets a flood of unknown orders (buys/sells), which accounts for the large amount of volume that you see on a chart but you do not see a great deal of price concession or movement being given up to accommodate that surge in orders. Why is that? —raker

Overnight there tends to be a big difference between opening price buy orders and opening price sell orders, thus giving way to a bigger gap. The market on close (MOC) price is following along with the normal market pricing near the end of day. And at 3:40 and 3:50, the specialist publishes the MOC imbalances and gets help offsetting these imbalances.

PRICE RULES

I feel that concentrating on price is for trading. Concentrating on fundamentals is for investing. Do not mix one with the other, but even when investing and the company invested in can be way overpriced, make sure it looks like price rules.

Here is a fact of life: When trading and investing with real money (paper traders never will learn this), the best lessons learned and the lessons that sink into the brain are the lessons that cost you dearly. The more you make mistakes, the lessons learned will be (better be) learned and not repeated. The easy stuff in trading is the hardest to learn — keep it simple, stupid. Your thoughts? — bighog

A couple of comments. I agree with the investing vs. trading aspect of fundamental analysis with the exception of correlated pairs trading. My brother has a good-sized chunk of our money in about 350 pairs right now, and he actively trades 100,000 shares a day or more to keep the positions working.

We use detailed fundamentals for determining long vs. short stocks prior to ever putting on a trade. One of my nieces works about 30 hours per week doing research in this arena. My brother says that if we're going to own something for an hour, a week, or a year, we should feel as confident in that purchase as if we were going to hold it for 10 years or more.

Since we are accountants by education, fundamental analysis is really basic and easy for us. I suggest accounting classes for all investors/traders. In the college classes I teach, I pull the same joke on everyone (trader/accounting humor!): I ask for the students' biggest stock holdings, and they tell me. I ask them for the book value of that holding, by share. Of course they never know. Then I ask them how much their car is worth within a couple of grand, and yes, they all know that. So my response is, "Well, you know more about a $20,000 car than a $400,000 investment." That makes them start thinking.

S&C

EXPLORE YOUR OPTIONS Q&A

Continued from page 51

stock position and then sell another call, maybe the July or August 25 call, to bring in additional premium. You can also adjust the position by rolling it to a higher strike price. For example, you might close out the entire trade and then create a July/October time spread using the 27.5 instead of the 25 strike price.

S&C

FUTURES FOR YOU Q&A

Continued from page 41

higher volatility because it results in higher option premium. However, it is important to realize that highly priced options aren't a coincidence. Higher premiums directly translate into higher risk.

That said, I am a big fan of option selling but due to market conditions, I believe that precautions should be taken and traders should be picky on which trades to take. In the case of Treasury futures and stock index futures, I like the idea of countertrend option selling once the market has reached an extreme as measured by trading ranges and standard deviations. Anything in between may be pushing your luck.

S&C