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Futures Trader in Love With Game : Smolen Plays the Market With the Same Zeal as in a Bridge Tournament

Outside, an incessant Santa Ana wind has blown the haze off the San Fernando Valley, and from Michael Smolen's Woodland Hills home, the eye can see from Ventura to Pasadena.

Smolen, a paunchy, 48-year-old wheeler-dealer, couldn't care less. He has eyes only for the hieroglyphics of Wall Street streaming across the two muted television sets in his living room. One is tuned to Financial News Network; the other picks up Channel 22, a local station specializing in finance.

Smolen, who gave up a personal injury law practice last year to become a full-time futures trader, is rooted in an overstuffed leather chair aimed at the two sets. Within easy reach are three essential tools of his trade: a portable calculator, a remote-control television zapper and a cordless telephone pre-programmed with the numbers of the two discount brokers who share his \$400,000 account.

Today, a typical trading day here in Woodland Hills, Smolen has taken positions in three of the four markets he allows himself to trade in. He has bought 18 futures contracts for U.S. Treasury bonds. He has also bought some silver contracts and has "sold short" futures on two stock indexes, betting that the market will drop. Today is not a day for trading Japanese yen, French francs or West German marks, Smolen's favorite currencies for speculating.

Ahead of the Game

When the trading day ends, some eight hours after it began, Smolen is ahead of the game. He has sold nine of his 18 bond contracts, producing actual profits of about \$2,800, and his remaining nine contracts have increased nearly \$4,800 in value. But his silver position has dropped \$300 in value and doesn't look solid. And those stock index futures, which performed so well the day before, have just erased the earlier gain.

Fewer Individual Traders

Still, Smolen is a decidedly happy trader. "Before I did this, I used to hate Mondays. Now I hate Saturdays because the markets are closed," he says. "My only hope is that I can do well enough at this so I won't have to go back and earn a traditional living."

By all measures, Smolen is small potatoes in the high-rolling world of commodity and financial futures trading. According to the most recent surveys, individual investors account for less than 30% of the trading on the nation's 12 commodity exchanges. And their ranks continue to thin as activity on the exchanges is increasingly dominated by banks, insurance companies, pension funds and corporations.

Futures are contracts to buy or sell a specified amount of a commodity or financial instrument for a set price on a specified date in the future. Futures trading is a highly speculative activity, often employing complex market strategies and high-stakes betting.

Nevertheless, commodity and financial futures trading offers a panache and a promise, albeit elusive, of overnight riches that simple trading on a stock exchange can't match. And Smolen, who has been trading futures off and on for the last two dozen years, is utterly hooked.

Although a slick trader can make some very fast and very big money, the vast majority of individual investors don't. Including Smolen. "No one I know who does what I do makes any money," he says. "They say 90% of investors lose money, but I think it's closer to 98%."

Since he began playing the futures markets full time, though, Smolen has managed to break even. He hasn't lost the nest egg he accumulated from earlier trading; but he hasn't added to it much, either. Yet he professes little concern for the results, so long as he can maintain a sufficient stake to continue. It's the process that totally absorbs him.

Starts Day Early

"It's just a game, that's all; a vehicle for a socially acceptable form of gambling," he acknowledges. "A guy who goes to Las Vegas and gambles all the time is socially unacceptable. But if you say you're a futures trader, it's OK. But essentially it's the same thing."

Smolen shrugs off the recent allegations of fraud in Chicago's futures markets and likens it to the cheating known to exist in other forms of gambling. "You can complain about it," he says. "But when it's the only game in town, you accept it."

On a typical day, and today is one of those, Smolen awakens at 4:45 a.m. and is ready to begin trading when the markets open 35 minutes later. Within the first hour of trading,

Smolen has placed virtually all of his orders for the day, carefully following the agenda he mapped out the day before.

He periodically checks on his positions throughout the morning, changing them as the agenda dictates. The two television sets provide one barometer. For additional information, he calls one or both of his brokers. His moves vary little from the daily script he prepares every afternoon following the market close.