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Commodities require love

By Nick Farina

SITUATION — A person buys hundreds of hogs with only a 5 per cent down payment at a time when the price of pork is less than stable.

QUESTION — Would such a person be a lover, gambler, speculator, or fighter?

ANSWER—According to a recently released Chicago Mercantile Exchange pamphlet, such a person would be a speculator and a lover. He would not be a gambler or a fighter.

Leo Melamed, chairman of the Mercantile where such 5-per-cent-down buying takes place, writes in the pamphlet that a successful commodities speculator should be a lover, not a fighter.

He explains that trading in commodities is "one of the last adventuresome frontiers" where a man must rely solely on his own ingenuity and common sense." the commodities trader (frontiersman), he says, must love the market (his frontier) because "the market is always right."

'Don't fight it'

"If you treat the market like the woman you love and do what pleases it, then you will be rewarded. If you think you're smarter than the market and fight it, then you'll lose," he says.

If the market is going down, it's not smart to try to pick the bottom. You should wait until the market starts going up and establishing a trend, according to this way of thinking.

"Commodity futures is one of the last significant fields remaining where someone can still pyramid a sizeable fortune from a modest investment," he says in the pamphlet entitled "Commodities Futures Trading, Mystery, Myth and Mandate."

To do it takes honest concentration, an adjusted personality without major hang-ups, and a mature temperament and character, he explains.

"You must strip yourself of emotions to allow for unprejudiced interpretation of facts after you have entered the market."

Gambling or speculation

Writing in the same pamphlet, Dr. Charles V. Harlow, associate professor of finance at California State College, Long Beach, says commodity trading is by no means gambling. Rather, it's speculation, he says.

He explains that gambling, such as horse racing or roulette, is the creation of risk for the sole purpose of someone taking the risk for the opportunity to win money.

Speculation, on the other hand, deals with the risks necessarily present in the process of marketing goods in a free capitalist system.

As hogs grow, are slaughtered and marketed, there are obviously risks of price change which must be taken by those who own the hogs or have commitments to buy them.

So the commodities speculator doesn't inject any risk into the economy. He takes over the relatively large risks of others in return for the chance to gain a large profit.

Harlow, who co-authored the "Commodities Futures Trading Guide," notes that the commodities market is a "primary market" and unlike stock exchanges which are "secondary markets" and which "supply little new equity money" for American business.

And without the speculator, says Harlow, futures markets could not function since speculators provide the necessary base for liquid futures markets and thereby make commodity marketing more efficient.

"One contract of pork bellies traded by a speculator might well reduce the cost of bacon to the housewife by reason of the reduction of inventory price risk to a packer," he writes.

"Those who speculate in the commodities market contribute to the social good," Harlow contends.

As well as performing a "social good," the Mercantile Exchange may be keeping a part of Chicago's heritage alive.

Chicago was once the "hog butcher for the world," but this all ended with the dwindling and recent closing down of the slaughtering industry in Chicago.

But the Mercantile, through its active markets in pork futures (Live hog and pork bellies contracts), is maintaining the city's reputation as a center for the pork industry.

Those in the business of raising, processing, selling or buying pork look to the Mercantile for an indication of the present and future price of pork.