PITTSBURGH - POST -
GAZETTE: WEDNESDAY, NOVEMBER 19, 1969

BUSINESS TODAY

No Cinch in Commodities

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(Second article of a series.)

"Intelligence, fortitude, character and adventuresome spirit . . . Honest concentration and adjusted personality without major hang-ups, a mature temperament and character . . ."

What are these? The qualities necessary for a polar explorer, an astronaut, a candidate for President of the United States?

Nah. These are just traits that add up to a successful speculator in commodities futures.

Even "successful" means you'll guess wrong 60 to 70 per cent of the time -- but the 30 or 40 per cent of the time you're right, you'll make enough profits to erase all the losers.

Such is the character portrait drawn by Leo Melamed, chairman of the board of the country's fastest growing commodity market, the Chicago Mercantile Exchange, which this year is celebrating its 50th birthday and about $30 billion worth of contracts traded.

No Claim That It's Easy

One thing Melamed and CME President Everett B. Harris didn't try to do at a symposium of financial reporters in their bustling marketplace the other day:

They didn't make commodities trading sound easy, in these days when people with money (burnt in the stock market, perhaps?) are looking for a speculative ladder to lift them up above the high scratching claws of inflation.

But they did make it sound popular — though there is, surprisingly, no reliable nosecount of commodities speculators comparable, say, to the New York Stock Exchange's estimate of 26.4 million shareholders.

And they did make it sound POSSIBLE to make a killing.

"Commodity futures trading," said Melamed, "is one of the last significant fields remaining where someone can still pyramid a sizable fortune from a modest investment."

But then he came right back and stressed that if all a fellow has in his bank account is a "modest investment" — he better forget about commodities speculating, quick.

The learning process alone is likely to eat up enough of a novice's money to dull the stars in his eyes — unless, of course, those high qualities of "fortitude, adventuresome spirit, etc . . ."

Leverage is Big

The reason a "modest investment" can — sometimes — bring a joyfully immodest return is that commodities futures are traded on margins far thinner than the 70 per cent usually prevailing in the stock market. Try to buy 100 shares of $100 corporate stock worth $10,000, and you normally have to put up at least $7,000.

But try to buy a carload of "frozen pork bellies" — 30,000 pounds of uncured bacon worth roughly $13,000 — and all you have to put up is $700. You get wide leverage on a relatively small amount of cash, which the men of the Mercantile Exchange liken to "earnest money" in a real estate purchase.

If "bellies go up," the carload can be re-sold to some other speculator or to an ultimate purchaser of bacon in carload lots at considerable profit to the man who guessed right on what such a commodity would be worth some months in the future.

The point is, Melamed stressed, knowledge is necessary for such trading — or else the $700 is as good as thrown on a roulette table. It can be wiped out in just two days of falling prices for bellies on the Mercantile's busy floor.

Oddly enough, the gambler's instinct, Melamed swears, is precisely the wrong ammunition to bring to the game. "When gamblers try their skill at commodities, they invariably lose. Commodities follow the laws of economics, of supply and demand.

"The rules of chance, odds and probabilities just cannot be applied successfully."

For example, Melamed says, the gambler has a tendency to stick too long with falling prices, keep meeting "margin calls" while hoping for a rise.

Limit the Downside

On the contrary, the sounder rule is to limit losses the stiff-upper-lip way: "If you get a margin call — get out."

And in a rising market, knowing traders will ride with the trend far longer than a sweaty-browed gambler will — which is why 30 or 40 percent good trades can wipe away a larger number of relatively small losses.

However, Melamed stressed, no brand of luck or supposed "inside tips" can bring trading success.

Instead, the speculator has to be become a hard-nosed student of what's likely to be a strange field of expertise: quarterly statistics on the hog population, slaughterhouse activity, the weather, feed costs and numerous other factors.

It's interesting that frozen pork bellies — a barnyard-sounding name that professional public relations men warned against in 1961, when the mercantile exchange established the futures contract in it -- have become the most actively traded commodity in the world. The palpable ugliness of the name seems to intrigue people.

Live cattle, hogs, shell eggs and a new one, lumber, are other fields of expertise the city speculator is invited to become an expert in — provided he has some "learning money" to lose.

Rise in Volume

CME President Harris noted that commodity trading volume on all exchanges is up 16 per cent this year over last — 100 percent at the Mercantile. Chicago's other huge exchange, the Board of Trade, deals mostly in grains.

Together these two account for about 80 percent of commodity trading, while some 15 other markets in New York, Minneapolis and other centers deal in coffee, sugar, various metals or other commodities.

The normal customer order generates $36 in commissions, so there's a natural interest in increasing this business. But is speculation something to encourage? Does the Mercantile Exchange really want more speculators?

"The right kind of speculators," was the answer.