Where Pork Bellies Are King

Commodity Exchange Woos Investors

CHICAGO.

"Let's face it," the pamphlet begins, "most people don't know what commodity futures are, and they're a bit apprehensive about getting into a mysterious field involving big profits . . . and losses."

But don't despair. The Chicago Mercantile Exchange, author of the publication, and other segments of the commodity-futures industry are determined to fill that knowledge void, and perhaps dispel the apprehension. Affluence has put many investors in a speculative mood, and the commodity people don't intend to be overlooked.

"If you've got a little risk capital, we've got the risk," beckons the Mercantile Exchange in one of a series of breezy, often impish advertisements aimed at attracting more people into commodity-futures trading.

Traditionally, trading in all futures—that is, contracts to buy or sell carload lots of commodities to be delivered later—has been largely the province of a relatively small band of professionals, together with agriculture producers and handlers who use the futures market to hedge against losses from price declines. Now, however, the Merc, as traders call it, and its friends, contend that there really is nothing supersecret about successful futures trading. Almost any "strong-hearted person" with the money, the intelligence, the stamina, and the time to study "these fascinating markets" can be rewarded with an "exhilarating experience" sweetened by "tremendous profits," proclaims a Merc brochure. In the same breath, however, the Merc admits that "there are more losers than winners in commodity speculating."

But Few Win the Pot

By one description, commodity trading is a "colossal poker game" in which many people ante up but few win a pot. Thus the campaign to attract more newcomers is being observed with certain qualms by some Government officials and investment advisers. "Speculators are essential to the futures market," declares Alex C. Caldwell, administrator of the Commodity Exchange Authority in the U.S. Agriculture Department. "But anybody who gets into it simply must know what he's doing." Exactly, chorus the exchanges, and one of the main purposes of the information program is to steer neophytes away from the pitfalls; another, of course, is to boost business for the exchanges and their members.

For anyone who wants to gamble, the commodities market offers the ultimate in action. Price fluctuations can be rapid and wide. But the big allure is the low margins, the amount that a buyer of a futures contract is required to put up. They run as little as 5 per cent or 10 per cent or sometimes lower in contrast with the 80 per cent that the Government requires stock purchasers to put up. A $16,000 cattle contract, for example, can be controlled for as little as $600. A one-dollar change in cattle prices is equal to a $400 change in the value of the contract. With that kind of leverage, fortunes can be made, or lost, overnight. One tale has it that a former psychiatrist gave his broker $5,000 to buy wheat futures at a certain price, and use any profits to keep buying more. Then, so he wouldn't get cold feet, the psychiatrist took off for Trinidad. When he returned five months later, he had a $200,000 profit. The story doesn't mention how many losers contributed to that.

Along with cattle, wheat, and sugar, traders speculate on such old standbys as corn, soybeans, soybean oil, oats, potatoes, butter, cocoa, and eggs, plus some newer items such as orange juice concentrates and frozen bacon slabs, better known as pork bellies.

Metals such as silver and palladium are also actively traded, and commodity men say there are numerous other possibilities for futures markets, including canned fruit and vegetables, frozen fried potatoes, and—in all seriousness—catfish.

The Trading Pits

The trading takes place on about a dozen exchanges throughout the country. Rules require that offers to buy or sell be made "in open outcry." This is done in circular areas called trading pits. The shouting and gesticulating often make for bedlam, and the exchanges keep stretchers and oxygen close by for emergencies, although they seldom have anything worse to contend with than a case of hoarseness.

Speculators rarely see the products they deal in. At some point before the delivery date they unload the merchandise, either to another speculator or the ultimate user.

A commodities trader, like a stock-market operative, can bet the market both ways. If he expects prices to rise, he "goes long"—buys a contract with the hope of selling it at a higher price. Or he can "sell short"—agree to supply a given quantity of a commodity at a certain price at some future date. The short-seller counts on prices to drop, enabling him to buy the product for less than the buyer

Bedlam in Mercantile Exchange pit, with oxygen, stretchers handy.

changes in supply and demand. A rancher, for instance, might watch helplessly while cattle prices collapsed before he could market his herd. But thanks to the futures market, he can, if he chooses, sell the herd months before it's ready for the slaughterhouse. The speculator who buys it assumes the risk, and reaps the reward if demand—and prices—rise.

The first use of futures trading was recorded in Japan around 1690. In those days, potentates would issue receipts for purchases of rice being grown in the fields. Merchants, in turn, would buy the receipts, which eventually became a form of currency. In the early 1800, futures trading spread to Europe. By 1848, Chicago had become a crossroads for U.S. grain dealers, and an early exchange was born.

In trying to popularize commodity trading, advertising men faced a delicate challenge. "Trading futures is only for the very rich . . . guys who have $500 or $1,000 to throw around," needled one Merc advertisement. Another advised: "See your broker for stocks, mutual funds, convertible debentures, tax-free municipals, and strictly fresh eggs."

A Special Problem

The Merc's hottest commodity, pork bellies, presented a special promotional problem. On a wall in the office of Everette B. Harris, Merc president, is a cartoon strip showing a middle-aged couple having dinner. "I'm thinking of buying some pork-belly futures, Shirley," exclaims the husband, eagerly. "What do you think?"

"I think," snaps Shirley with a glare, "that that's not a nice thing to discuss at the dinner table."

That is precisely what a public-relations consultant told Merc officials when trading in bellies started in 1961. "You can double your business if you call them 'frozen bacon,'" said the consultant. The Merc demurred, choosing to stick with the name best known in the industry. Today, pork bellies are the world's most actively traded commodity.

The public will be hearing more about pork bellies and commodity trading in general. Both the Merc and the Board of Trade have sharply increased their advertising and promotional budgets. This year the Merc will spend $300,000, up from $250,000 last year and only $16,000 in 1967.

The Merc's Mr. Harris concedes that promotional efforts may lure some people into the market who shouldn't be there. But it also may convince others that commodities aren't for them. Many commodities men say that the more people know about trading, the less likely they are to get hurt.

Many do get hurt because they ignore the cardinal rule of trading, say the pros. That rule is: Limit losses, let profits run. In other words, sell out quickly if the price starts dropping, but hold on if prices rise. The tendency is for the small speculator to hesitate in closing out loss positions. Contrary to the cardinal rule, it's agreed, the amateurs show a tendency to cut their profits and let their losses run.

Ben Raskin, a member of the Board of Trade and highly successful grain trader, advises: "Read everything you can get your hands on—everything from weather forecasts to Government publications. In grain, supply is the crucial factor."

Other tips:

- Use "stop orders" to limit your losses. That is, tell your broker to sell you out if the price drops a stipulated amount.
- Admit it when you're wrong. "That's one of the hardest things for the amateur to do," declares Leo Melamed, chairman of the Merc.
- The market is always right. "Learn to love it, not fight it," urges Mr. Harris.
- Don't put blind faith in commodity letters or other printed recommendations. "I know some people with Ph.D.s who can't trade worth a damn, but they write books on the subject," comments a Board of Trade official.
- Don't lose so much that you can't come back.

Many leading commodity men caution against overreliance on the advice of brokers. "It's imperative that your man be extremely competent," emphasizes William J. Mallers, chairman of the Board of Trade, but it can be difficult to find one. In fact, some commodities brokers are washed out traders.

The CEA's Mr. Caldwell strongly advises against opening a "discretionary account"—one in which you authorize a broker to buy and sell for you at his discretion. "There is a great temptation for the broker to trade excessively to pile up commissions," Mr. Caldwell declares. "The speculator should make his own decisions."

—MORTON C. PAULSON