



PAUL E. BERRY, DIRECTOR  
CHICAGO BOARD OF TRADE

Mr. Berry began trading in commodities shortly after his graduation from college. He maintains a deep interest in agricultural affairs and owns and operates a large ranch in South Dakota. During the past year he has served as a director of the Exchange and as a member of several important committees.

## THE SPECULATOR AND THE COMMODITY FUTURES MARKET

Ladies and Gentlemen it is a real privilege to talk about the role of the speculator on the Chicago Board of Trade Futures Market.

The reason that we have a Futures market and that we have speculators is that so many people are trying to avoid speculation. They are trying to avoid speculation because they are seeking security.

The banker who loans money on cash grain in storage does not want to speculate, he wants security. He wants to be sure that his depositors' money is safe. So, the first thing he will ask, "Is the grain hedged?". If the grain is hedged, he will loan you up to 90% of the market value, if the grain is unhedged he may loan you 40% of the market value. But that grain could not be hedged if there were no speculators.

The country elevator operator buying grain from the producer is not in the business to speculate. He is interested in the 4 or 5 cents per bushel that he receives for the service of handling and storing the grain. In order to have price security on the cash grain until it is sold, he will hedge it by selling a futures contract. That futures contract is bought by a speculator.

The processor of grain is interested in making a profit on a box of breakfast food or on a ton of feed. He also wants price security, not only on the inventory of grain that he is buying, but also on any forward sales of his finished products. He gets this security by buying future contracts so that his raw material price is fixed on his forward sales. Speculators help the processor achieve price

security. The producer, the elevator operator, the processor, the banker -- they're all looking for security. Everyone is looking for security. The person working for a large firm or government agency feels that social security and pension funds give him security. Unions are trying to promote benefits for their members that give them additional security. People often get married for security. Even the speculator is looking for security. Speculation happens to be his way of finding security.

So what is security? And what is speculation? Naturally, I have given this a lot of thought as I'm no different than anyone else. I'm looking for security, too. My conclusion is that security is a person's ability to look after himself.

If it were possible to stop the clock and have no further change, then there would be no need for speculation. But life is not that way. We are in a constantly changing world which means we must continually adapt ourselves to new circumstances to attain real security. This is where speculation fits into the picture in our daily life, for if our decisions are right, we will have an all around happier, longer life, and the security we all are seeking.

Annuities and pension funds are wonderful investments. But how does anyone know if his pension fund will give him the security he is dreaming of in another 20 years, and what the purchasing power of the dollar may be? By then it may be that he just cannot live without a rocket ship or helicopter to maintain his desired standard of living, and who can tell what it may cost to maintain and operate a rocket ship? In our changing times the man who depends on a pension fund alone for future security is a speculator.

I believe that in our desire for security and in making our constant adjustment to changes, we all end up by being speculators. So, as one speculator

talking to another, lets take a look at the way many of us try to gain our desired end of security through speculation, and how our futures market fits into the picture.

In the first place a person must speculate in the field he likes the best, and in which he enjoys working. Many of us become interested in markets --- for stocks, or real estate, or commodities. Regardless of the field of speculation, it is necessary to spend a great deal of time and thought and work developing worthwhile knowledge and opinions on which to base decisions. If you are interested in agriculture either through education or experience or both -- as I was -- you may find yourself fascinated by the price fluctuations of the commodity markets. If so, you are then ready to try to fit yourself into a market operation.

Since we are all speculators and since people are all different, you must adopt the type of speculation that fits your mental and emotional make-up and personality.

You will notice that I didn't mention money as a prerequisite for speculation. That may seem strange but you must remember all you want to be is right and you will have the money. If you are not right in your trading, all the money in the world will not help you.

Now, one type of speculator is a scalper who operates in the pit every day, buying and selling, attempting to take a small 1/8 or 1/4 cent profit on a quick trade. I tried that but my mind didn't work fast enough. By the time I decided that I saw a good trading opportunity another scalper had bought and sold while I was just clearing my throat getting ready to make the trade. To be a successful scalper you must have a great memory for names and prices, have a

nervous constitution that allows you to be keyed up all day long without a let-down, and a mind as fast as lightning. A scalper doesn't care about market opinions, but relies upon his market instinct and generally goes home without a position because if he were long or short he couldn't sleep as he doesn't like that kind of speculation. These men make an important contribution to the national economy, because their rapid buying and selling helps keep the market both stable and liquid.

Another type of speculator is a spreader. A spreader always has a long position offset by a short position. His profit is made in the ever-changing differences between options in one pit or the differences between one grain and another or between one market and another --- for example, between Chicago and Kansas City, or Minneapolis, or Winnipeg. You must have a mind like an electronic I. B. M. machine to have all the spread differences figured at all times and be ready to make a trade when the opportunity presents itself. Generally, a spreader will always be hedged up and will not have an open net position, as he doesn't care to assume this kind of risk. By helping to maintain balance between markets, the spreaders help achieve price stability and liquidity.

Then there are the varied types of open position traders. These traders take an outright long or short position and attempt to make a profit from the price fluctuations. Some position traders close out their trades every day, others trade for short swings, while others try for major trend changes and will have the same market position for weeks or months at a time. These open position traders also help bring stability and liquidity to the market.

Incidentally, I believe a person who is not in constant contact with the market should be a long-term type of a trader, otherwise, you are constantly wondering what is going on, and find it hard to be relaxed and have peace of mind with your position.

In order to be successful in any speculation you must first develop a sound basis for operating and set up rules that you must follow in making your decisions. As they used to say at the Y. M. C. A. in St. Paul, "have a plan -- then work your plan". A speculator is no different than a person running any kind of business or institution. They all must have fundamental rules for operating that have proven to be sound over a period of time. This is true whether running a bank, a college, a farm, or your speculating account.

How does one go about setting up these operating rules? Well, it helps to read about the experiences of other traders and the rules others have used in their operations, but the only way you can develop your own rules is through the experience gained by actually trading. Naturally you start in as small a way as possible because you are going to lose some money through bad decisions and you will want to keep this loss small enough so that it does not upset you. Remember, trade to be right and the money will take care of itself. That doesn't mean you should not limit your loss, because you will always want to lose your opinion rather than your money. So at the time you make your trade, determine at what point you want to consider yourself wrong. If the market does not do as you expect, admit your mistake and take your loss, and wait until another trading opportunity presents itself.

How are the decisions made? Some traders base their decisions on economic fundamentals, others on charts or graphs, and still others on both.

Personally, I keep charts on the prices of all farm commodities, and I try to keep abreast of all the fundamental information available. When my conclusions based on such information fit into the pattern developed on the charts, I make my trade. A great deal of the time, I'm in a quandry not knowing what to do because the facts seem so conflicting. So most of the time I'm better off not trading at all. I always get a kick out of the person who tells me he is taking a flyer in wheat or dabbling in beans, because I can't see how he can be successful over a period of time. It would be just as though I'd tell a doctor that I would like to make a fast buck by operating on a patient, it only takes a few minutes for the operation so why shouldn't I try it. Of course, everyone would think me insane. The doctor would go to long length telling me how much time he spent learning his profession and how much practical experience it requires. And the same is true of any type of speculation.

About 90 per cent of the time markets are not going anywhere, they are known as trading markets and are in a narrow range due to the price being in balance with the present supply and demand factors. While a market is in this limited price range or congestion, the next move either up or down is being worked out. If the price is such that sales are encouraged the market will adjust to a lower level where accumulation takes place and the price again stabilized as the market is continually seeking the correct price level.

It is in staying with a market while it is in these congestions over a period of weeks or months that a long term trader makes his money, providing of

course, his position has been taken with the trend of the market.

The basic operating principles are simply these: you recognize the trend of the market; you stay with it until the trend changes to get the maximum profit; if you're wrong, you limit your loss. These principles are the same in all speculation no matter what it may be.

Regardless of the type, all speculators on the Chicago Board of Trade have the same role in the National Economy which is to make a liquid market available at all times for both buyers and sellers of grain. In this way the producer, the merchant, and the processor of grain all are given the opportunity to have the price security they need. And the consumer gets the finished product at a lower price than would otherwise be possible.

The Chicago Board of Trade offers equal opportunity for all speculators to adjust to economic, political, and weather changes that so affect their lives and to which they must adjust in order to have the security they desire.

All but one of the basic economic facts that make market fluctuations are available to everyone. Only God in our heavens above has control of the weather. He can turn a bumper crop into a failure or a poor crop into a good one in a matter of days, and without the control of the weather, no man or government can ever successfully dictate the prices of commodities.

## QUESTIONS AND ANSWERS DISCUSSION

Professor Schuyler F. Otteson, Presiding

Chairman Otteson:- We will now open the usual "Question and Answer" period and I would like to be the first to pose a query to Mr. Berry and this is it:- Would you recommend that the "man on the street" speculate on the Chicago Board of Trade.

Mr. Berry:- If he has the basic background and has worked hard enough to get the knowledge on which to make his decisions, I would say "Yes". I don't care what a man speculates in, he must have the background to do the job right. I know that someone is going to ask if a professor should speculate in the grain market. I think that he should if he has a way of developing a sound basis for operation. I believe that a professor's power of reasoning is better developed than "the man on the street" but he too must have a well organized plan. You don't just start out speculating anymore than you would jump into operating a filling station unless you knew what you were doing.

Professor J. Wendell McKinsey, University of Missouri:- I would like to have you develop the matter of the necessity for skill and ability a little further. For instance, an unskilled speculator might be ill-advised in his choice because of the personal consequence of the possible loss of his own money. Too, perhaps his operations might have a bad effect on the market. Would you please elaborate on that score?

Mr. Berry:- An unskilled speculator does not last long. I'm sure you could say the same thing about an unskilled professor not lasting very

long in the educational field. This could be said about any profession or business. My point is that you just cannot rush blindly into something. If your judgment is good, you will make and will have money. You don't have to start with a million or a hundred thousand dollars. Back in 1931 I was working for \$14.00 a week and yet I was able to speculate in a small way. The same degree of risk exists today as in 1931. If you lose, its due to your own individual judgment, not someone else's opinion. You gain or you lose because you arrived at some definite conclusion about a price action, but if you just "take a flyer" you are going to be eliminated.

Professor William J. Watkins, Indiana University:- In your paper, you mentioned that you keep price charts on all farm commodities as well as trying to keep abreast of all available fundamental information. Without giving away any secrets, would you care to tell us how you make "long-run" forecasts?

Mr. Berry:- There are no secrets. For a "long term" position, it should be for a period of six months or more; for a "short run", it could be anywhere from a few days up to a matter of weeks or months. Personally, I am a long-term trader. I try to determine a long-term trend and then stay with it. Let me give you an example. At this time last year, everyone knew that the government was going to lower its wheat support price. This was given the widest kind of publicity in the papers and over the radio. With wheat production as it is, a long-term trader just had to take the "bear" side of the wheat market until that trend had exhausted itself. Naturally, you have to be alert so as to recognize when the trend is about to reverse itself. That

is where your study of the market gets into the picture.

Professor Watkins:- Could you name some other factors besides the matter of a change in the government support price which have to be considered?

Mr. Berry:- You have to watch the weather. We had a very severe heat wave this summer. Everyone knew it was of terrific importance in determining the number of bushels of corn to be produced but as far as I know, no one has been able to properly evaluate the actual effect on the size of the crop. And they won't be able to do so until the corn is actually in the crib. You make your decision about your market operation in accordance with your own personal opinion about the amount of damage that was done to the crop and it may differ from that of every one of our 1,422 members. But your opinion is as good as any of them.

Now we all know that from time to time, the government changes its policy regarding the agricultural price problem. One plan enjoys popularity for a time, then it runs out of steam. They modify or drop it altogether, but another always takes its place. I look at this as just another factor. I just heard someone thinking out loud. He was wondering if changes in governmental policy can be charted. I believe that they can be. Washington does not make overnight changes. There is a great deal of discussion while they have the matter under consideration and all sorts of opinions are expressed as to the chances of a change being made. All kinds of "trial balloons" are sent up. It is my thought that the government does not make changes of that sort so quickly but that one always has ample time to form an opinion as to what the

official decision is to be.

Professor W. W. Armentrout, University of West Virginia:- -Do speculators have private information or do they depend on government crop estimates ?

Mr. Berry:- Most speculators have opinions of their own. For instance, if you were trading now in corn or soybeans, you would have your own ideas regarding the probable damage done by this summer's high temperatures and lack of rain. You may disagree with the private and the government crop estimates and a lot of the time, you would be right.

Professor C. A. Bratton, Cornell University:- Mr. Berry, I have heard some people say that speculators just add to the price the consumer has to pay. Can we hear from you on that point ?

Mr. Berry:- If there were no such people as speculators, the manager of the country elevator would necessarily expect the farmer to carry the risk of ownership until the elevator manager could sell the grain he was buying from the grower. He would do this by paying the farmer an appreciably lower price for that grain. In other words, with organized speculation, the country grain buyer can and does pay considerably more for the farmer's grain than he could pay unless he had someone to shift that risk of ownership to. Likewise, if a miller were not able to protect himself against a price advance on wheat, he would have to ask considerably more for the flour from the baker and other consumers. With organized speculation, the miller protects himself against an adverse price change. Without such speculation, the bid and the asked prices for grain would be widely separated. People who wanted to sell grain would have to take the bid price, and those who wanted

to buy, would have to pay the seller's price. But with a fluid, liquid market that provides stability, anyone who has a radio or a morning paper, can and does know exactly what the market is doing at all times. Speculation gives a higher price to the producer and a lower price to the consumer.

Then there is a matter of financing the purchase and sale of cash grain. If grain has been hedged, a banker can loan almost right up to the actual value of that grain. But if it is unhedged, a bank probably would not loan more than 50% of the value. And you must remember that without speculation, hedging would be almost impossible for the reason that in such a case, a "buying" hedger would have to meet up immediately with a "selling" hedger with both of them wishing to trade in exactly the same amount and for delivery in the same month and at a price mutually agreeable to both.

Someone in the back of the room just asked if the speculator provides the same function as the Commodity Credit Corporation. I would not say so. Very definitely not! The government agency assumes a risk that no private firm or individual could. They just take the grain from the farmer at the loan price, but of course they have the United States Treasury behind them, which helps a lot! On the other hand, the speculator has only his own money, not the tax-payer's in back of him and necessarily, he has to be a little more careful.

Chairman Otteson:- This certainly has been a most interesting and rewarding session and we are greatly indebted to Mr. Berry not only for his thought-provoking formal presentation but also for his participating in the discussion that followed it.



L. F. STICE, EXTENSION MARKETING ECONOMIST  
UNIVERSITY OF ILLINOIS

L. F. Stice has served as a member of the Educational Advisory Committee for three years and was chairman of the Thursday Symposium Sessions. As grain and livestock Marketing Specialist at the University for many years, he has made numerous contributions to the solution of marketing problems confronting farm producers and trade groups.