SOLD!
Bidding on Tomorrow At the Commodity Exchange

By Charles Livingston McCain

It is the last frontier of capitalism. “The most lucrative legal business in the world,” said one trader. “The purest example of free enterprise in the nation today,” said another.

Its participants win - and lose - fortunes in the blink of an eye.

The business is the buying and selling of commodity futures contracts, legal agreements to buy or sell a specific amount of rice, cotton, wheat, or other commodity at a set date in the future. Until recently there were 10 commodity exchanges in the United States. Now, with the opening of the New Orleans Commodity Exchange in April, there are 11.

Cotton Exchange 1873 - New Orleans, Louisiana by Edgar Degas

The trading day starts early for 28-year old floor trader Bill Bivins. He arrives at the New Orleans Commodity Exchange at 7 am, gets his coffee and puts on his jacket - it is red, the color of jackets worn by most floor traders. Bivins’ jacket is festooned with the badges of his calling. One allows him onto the trading floor, another has his computer name (BIV), and still another proclaims his membership in the Pit Committee - the group of traders who set trading regulations.

Bivins drinks coffee while reading newspapers and crop reports. He makes a dozen phone calls to Chicago traders, grain executives, and others involved in the business.

About 9:30, Bivins and the other floor traders drift toward the trading pits. The traders talk quietly among themselves. They stretch, limber up, preparing for what is to come.

Above the traders are huge, electronic price boards - one each for soybeans, short-staple cotton, rough rice, and milled rice. Above these boards are long, thin electronic price scanners that give the prices of gold, silver, sow bellies, “T-Bills” (Treasury bills), and all other commodities traded in the United States. At 9:30 these scanners already are lighted, because New York and Chicago begin trading earlier than New Orleans.

A digital clock above the price boards ticks away the seconds: 9:43:40...9:44:15...and then the magic time - 9:45:00. A gong sounds. Bivins and the other traders begin to shout. “Sell Jan at sixty-five,” “three for Jan,” “Sold!” “Sep at sixty-five, Sep at sixty-five,” “What’s bid on N.O. rice?” “March at fifteen,” “Sold!”

The pace is hectic, the pressure intense, the traders aggressive. They may be friends on the outside, but, says Bivins, “You walk in that pit and it’s a different story.”

Bivins, a native of Alabama, started out selling life insurance. He met some floor traders from the Chicago Mercantile Exchange, saw how much money they were making and quit the insurance business. After working several years for a commodity brokerage firm, he bought his own seat on the New Orleans Exchange. Today Bivins is an independent floor broker. He buys and sells for his own account and executes trades for large brokerage firms on a commission basis.

Of course, Bivins never takes delivery of a contract, as he has little use for 200,000 pounds of rice. And he never delivers a contract, for his small front yard could hardly produce 100 bales of cotton. Instead, he buys and sells contracts throughout the day, taking advantage of the daily price fluctuations. For example, rough rice futures may sell in the morning for $10 per 100 pounds. Bivins buys. By afternoon, rough rice may increase in value to $10.05 per 100 pounds. Bivins will sell, realizing a profit of 5 cents for every 100 pounds of rice he bought. And, because a rough rice futures contract is in the amount of 200,000 pounds, Bivins will make $100 on a transaction such as this.

Clocks in the New Orleans Board of Trade

But it's not just floor traders who can do this. Anyone who has the money can go to the office of a stock brokerage firm and buy or sell a futures contract. The firm will pass the order to a commodity exchange, and a floor trader like Bivins will buy and sell for you.

What makes this investment attractive is that you don't actually buy the contract - you just promise to buy it. You back up your promise by depositing a sum of money with your broker. This deposit is called "earnest money." How much you have to deposit depends on how many futures contracts you wish to control. Naturally, the prudent speculator sells his contracts before delivery date lest he become the proud owner of a rail car full of grain.

Before you rush out and start speculating in commodity futures, remember this: Every time you make a dollar, someone must lose one.

An independent floor trader must deposit at least $10,000 of "earnest money" with a large brokerage firm before he can start to trade. This firm will have an agent called a "clearing member," who is a member of the exchange. The clearing member guarantees the floor trader's transactions, does his paperwork, and assumes his liability.

The independent floor trader must settle his account each day with his clearing member. If the floor trader makes a profit, the clearing member gives him a check. But if the floor trader loses money he must give the clearing member a check for the amount of his loss. If the floor trader has lost more than he can pay, the clearing member will sell the trader's contracts and, in extreme cases, the trader's seat on the exchange. Hence, independent floor traders face potential financial ruin every trading day. This fact makes commodity trading a high-pressure business indeed. To succeed you must have intelligence, strong nerves and, most importantly, the ability to admit your mistakes and sell out before you are ruined. Says Bivins, "You let your winners run and you cut your losers off...If I get a loser, I get the hell out."

What makes this business even more difficult is that a trader can't sit in a quiet office and carefully weigh the facts before he buys or sells. Instead, he can only buy and sell in the trading pit, shouting his bids along with those of the other traders - a trading system called "open outcry." There is no time for detailed thinking in the pit, so traders must do this in their off hours. In the pit, things happen fast. There's a shout, an answering cry, a flash of hands palms down - (the signal for "sold"), and someone has promised to buy a rail car of rice, a trainload of wheat, or a warehouse full of cotton. A miscalculation, a misstep, or even bad luck can cause a trader to go bankrupt in a second. But the people who are in this business love it. "I wouldn't do anything else," Bivins says.

Bivins and most other commodity traders do not, however, take large risks. They protect themselves in a variety of ways, and they rarely hold their contracts for more than a few days. But there are other traders, called "position traders," who buy futures contracts and hold them in anticipation of large price increases. A position trader must have the resources required to weather adverse market movements. For instance, a position trader may buy a number of futures contracts believing their prices will increase substantially within a month. But the prices may temporarily decline, and the clearing member will call upon the position trader to increase the amount of his security deposit. This the position trader must do, or the clearing member will sell the trader's contracts at the depressed price.

One successful Chicago position trader who is seen often at the New Orleans Exchange is Phil Van Vlack. Van Vlack was a successful manufacturer when he entered commodity business in 1975 at the age of 36. In his first year of trading he lost heavily. Soon, however, he discovered the secret to success in the commodity business, and within a year he was well on his way to breaking even. He's been doing well ever since. His secret? He won't say.

Van Vlack frequently travels from Chicago to trade on the New Orleans Exchange. He does so, he says, "to receive the necessary feel. I don't like to be away from a market and trade by telephone." Van Vlack maintains an apartment in the French Quarter, and when he is in New Orleans a chauffeured limousine awaits his command 24 hours a day.

On an average trading day, Van Vlack spends the early morning hours reading newspapers and making phone calls around the world to check on markets, crop conditions, and currency values. Armed with this intelligence, he awaits the opening of the various commodity exchanges.

When he is in Chicago he stays on the floor of the Board of Trade within eyeshot of the trading pits. He watches the activity and consults with three employees who keep track of his holdings. Only occasionally does he enter the trading pits to trade for himself. He also talks with his associates in New Orleans by phone four or five times during the day.

When in New Orleans, Van Vlack usually watches the trading activity from the sidelines, sending in his buy and sell orders through intermediaries. But he doesn't ignore Chicago. His lieutenants there keep him informed of his progress.

Though he is a licensed floor broker on both the New Orleans and Chicago Exchanges, Van Vlack usually has others execute his orders. He does this to camouflage his intentions. Despite his reputation and renown, some rookies tried to out-trade Van Vlack when the New Orleans Exchange first opened. He descended into the trading pits and taught them a few lessons in commodity trading. They have not forgotten, he says.

When in Chicago, Van Vlack leaves the exchange after closing and goes home for a nap. After rising he goes to his computer room to examine the data gathered for him by his personal computer, which receives price quotations from every financial exchange in the nation. Afterwards, Van Vlack reads various commodity publications and consults his private meteorologists about weather conditions that will affect world crops.

But he is not consumed by the commodity business. He quits at 4 pm and spends the rest of the day with his wife and two teen-age children. If he occasionally wants to check a few prices in the evening, he doesn't have to leave his family to consult his computer. He just interrupts their TV program for a few minutes and switches to his special channel that displays the price information gathered by his computer.

Occasionally Van Vlack gets caught by events beyond his control - like the recent grain embargo that caused the price of wheat to drop dramatically. Van Vlack lost a substantial sum of money. But these unforeseen events don't bother him. "I don't worry about anything over which I have no control," he says.

In spite of the high pressure of his business, Van Vlack is a relaxed man. He doesn't lie awake at night worrying about grain prices. He takes frequent vacations, during which he makes but one phone call a day to check on his affairs. He likes to hunt and fish, and his hobby is collecting Lionel trains. Indeed, his large suburban home has a special train room. "I am who I am and what I've accomplished in my life," he says.

One would expect Van Vlack's biggest thrill in the commodity business to be the day he made enough money to purchase outright his seven-bedroom home. But it wasn't. "The biggest thrill I ever had was the first day I made 500 bucks," says the 42-year old trader.

Not everyone in the commodity business wants to make millions and millions of dollars. For a few, just $1 million will do. André Stern was first exposed to commodity trading when he took a summer job as a "runner" on the Chicago Board of Trade, running orders from the phone clerk to the floor traders in the pits. But commodity trading didn't interest young Stern. He went on to college and later came to New Orleans, where he earned a master's degree in social work from Tulane. He soon found, however, that social work didn't pay well. About that time he learned that his old boss in Chicago had been hired as floor operations manger by the New Orleans Commodity Exchange. He visited her, and she hired him as a "pulpit reporter," an exchange employee who stands in a large reviewing box ("pulpit") and follows the action in the trading pit. When a reporter hears a completed trade, he scribbles the information on a card and thrusts the card under the nose of a keyboard operator. The operator types this data into a computer. The computer flashes the data onto the appropriate price board at the exchange and simultaneously transmits the information throughout the United States and Western Europe.

New Orleans Board of Trade

Stern was a pulpit reporter for several months before his promotion to pit supervisor, the position he holds now, at age 27. He stands next to the trading pits and watches for violations of trading rules, such as prearranged trades or brokers exchanging information on buy and sell orders from their customers.

But Stern doesn't want to spend his life watching floor traders. He wants to be one. He has been studying the business and plans to buy a seat on the exchange, becoming an independent floor trader. "The only thing I really want out of this," he says, "is financial independence....If I could make a million dollars, I'd stop."

Providing an arena for people to make or lose lots of money is not, however, the purpose of the New Orleans Commodity Exchange. The main function of the exchange is to provide a price discovery mechanism. The value of various commodities is "discovered" through demand indicated in the frenzied open-outcry bidding. Quite simply, an exchange is nothing but a marketplace where buyer and seller are brought together in the most efficient manner possible.

The exchange also serves as an agency to redistribute risk. A Louisiana farmer, like Lafayette lawyer and farmer Bob Wright, can use the exchange to hedge his crops. That is, he will use the futures market to assure a price at which he will sell his crops in the future. The speculators thus assume the risk inherent in a fluctuating market.

But Bob Wright isn't just a farmer and a lawyer. He is a member of the New Orleans Exchange and sits on its Board of Directors. As a matter of fact, he was the force behind the creation of the exchange.

After 1871 and for nearly a century, there was a commodity exchange at Gravier and Carondelet streets in New Orleans, but it traded only one crop - cotton. In 1961 the price of cotton fell to government-support levels. There was no need for a price discovery mechanism, so the exchange was closed.

In 1975 Wright became convinced that Louisiana and the South needed a new commodity exchange to discover prices for the commodities produced in the region. Although other exchanges were trading in commodities produced in the South, the prices those exchanges quoted were not the point-of-export prices. The Southern farmer needed to know the value of his crops at their point of export. And now he does, because the New Orleans Exchange trades commodities based on their value on the wharves of the Port of New Orleans.

Also, before the opening of the New Orleans Exchange, no exchange in the nation dealt with short-staple cotton or rice - crops of great economic importance in the lower South. Today, the world prices of rough rice, milled rice, and short-staple cotton are discovered at the New Orleans Exchange. It transmits these prices around the world, fulfilling another of its primary functions, which is the dissemination of price information.

Despite the need for a new exchange, it took Bob Wright more than 5 ½ years to convince farmers, investors, speculators, millers, and the federal government of the necessity for a commodity exchange in New Orleans.

C.C. Odom II, chairman of the board of the New Orleans Exchange, believes the exchange will help make New Orleans a major trading center, increase port tonnage, and increase the flow money through local banks. And he says the exchange is considering taking up the trading of energy futures - commodities like gasoline, barge coal, and heating oil.

Times have changed since the old Cotton Exchange opened in 1871. Commodity trading has become a fast-paced and sophisticated business. When the New Orleans Commodity Exchange opened on April 9, 1981, there was frenzied trading as everyone scrambled for their first dollars. How different from Feb. 19, 1871, the date the old Cotton Exchange opened, when, as The Daily Picayune reported, “Bottles of the best of wine, brandy and old bourbon…were placed at the disposal of those present and the hours passed swiftly by amid joy and merriment.”

The Old Board of Trade Building: A New Tenant and New Visibility

In 1883, James Freret designed a beautiful structure to house the New Orleans Produce Exchange. Indeed, this structure, now home of the New Orleans Commodity Exchange, is one of the most charming old buildings in the Crescent City. But for years, many residents of New Orleans and most visitors never even knew the building existed; until recently you couldn’t even see it.

Interior mural in the New Orleans Board of Trade

The Board of Trade Building faces Board of Trade Place – a fancy name given to the alley that runs behind some buildings that face Magazine Street. These buildings on magazine totally obscured the Board of Trade Building until 1967, when one of them, the St. James Hotel, was demolished. Board of Trade Plaza, with its fountain and iron benches, was built on the site of the old hotel, and the plaza allows Magazine Street passers-by a view of the Board of Trade Building. The building shows Renaissance and Baroque influences, and its most striking feature is the oak entrance doors, over 30 feet high. Noted New Orleans architect Sam Wilson says they’re “the biggest doors I ever did see” and that, as intended by their designers, they “give the building a monumental effect.”

The interior of the building is taken up by the trading floor of the New Orleans Commodity Exchange, its executive offices, and the offices of the Board of Trade. The most notable feature of the interior is a mural, inside the dome over the trading floor, depicting trade, commerce, and industry in New Orleans. It would be nice to think some noted Louisiana artist created this mural, but, unfortunately, the identity of the artist is not known. The Board of Trade has made several attempts to find out who the artist was, but all they have learned is that the mural was painted during the Depression by a Works Projects Administration artist. That makes the mural doubly interesting, because most WPA art has disappeared from the public buildings of Louisiana.

This unknown artist painted the mural on canvas, then glued the canvas to the plaster inside the dome. The mural has grown dingy over the years and was restored when the Board of Trade Building was renovated to house the New Orleans Commodity Exchange.

It would take millions to construct an edifice like the Board of Trade Building today. The price tag in 1883 was $29,040.

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