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LEO MELAMED, chairman of the board, Chicago Mercantile Exchange

Melamed graduated from the John Marshall Law School in 1955, but began trading in commodity futures "with a very little money" while still in school. Now he's the principal partner in a law firm, partner in an investment company, and is serving his second term as chairman on the Chicago Mercantile Exchange. The Exchange is a marketplace for the buying and selling of future contracts in pork bellies [uncured bacon], live cattle, hogs, potatoes, eggs, turkeys, lumber and hams.

First a person has to determine in his mind whether he's looking for security by way of an income. But $5,000 is so small and insignificant a figure to start building a base on that it almost rules out any kind of investment that would give you income security—either via bonds or stock market or anything like that.

Supposing, instead, he's looking for quicker results?

Even then, let's face it, $5,000 is not a dramatically big figure to start with. But certainly commodities could produce some good results. However, I would immediately hasten to advise the young man—or whoever—that before he takes a dive into commodities he should very carefully research the subject, do some self-educating on it, talk to some people in the industry, and find himself a reliable brokerage firm. After he's done that and after he realizes that his venture into the commodities may lose hin the $5,000, after he's done all th and he's willing to take the risk, th I would say certainly commodit can offer the opportunity for a very good return.

What kind of a return?

A person can look forward over a year, if he's done very well, to making 50 to 100 per cent on his money.

That's very well, indeed.

Well, let's say in a year or two. Please understand, this is a very, very difficult area. You just can't go blind into it, merely relying on somebody's opinion. If he wants to b involved in what he's doing he shoul consider commodities. If he wants to invest $5,000 into something where he can just forget about it and be sure that it's going to make him some money in years to come, that's not commodities. In commodities you're involved, you have to keep abreast of trends, you have to be interested. You just can't invest in commodities and turn around and let your broker worry about it. It isn't good enough. The successful people in commoditie worry about it themselves and pa attention and learn as they go along And they do well.

All of them?

They can do well. Naturally, ther is a multitude that don't do wel. It doesn't turn merely on paying attention, obviously. If that were the only criteria then everybody would pay attention. It requires an ability to analyze and learn statistics and to discuss it with a broker. Naturally he's going to rely heavily on a broker's advice, but in order to understand the broker's advice he has to first educate himself.

How would he begin this education?

There are a number of good books and pamphlets on commodity trading that would give him a base. The exchanges themselves offer much information that's free—historical facts about what commodities do, seasonal trends and so forth. After he has the basic education then he should get in touch with a reputable broker.

Are some commodities better than others for the neophyte to begin with?

There are various guidelines he'll learn and one is to begin with a commodity that isn't too volatile. Something like cattle or a grain that rises and falls but not dynamically overnight. Trading in pork bellies or eggs, let's say, which are affected by various factors daily should be done only after the trader has some experience—tho it should be an objective. Pork bellies is the No. 1 trader at this time. Another rule would be not to go into too many commodities at one time, even if he were successful. You've got to pay attention, as I said before. And you can't pay attention to all of them at one time. One or two markets are sufficient at the start. He'll have to lo that and he'll have to learn how o cut his loss when he's wrong and o admit an error so that he can ight again.

He's got to learn when to sell.

Yes, as quickly as possible he must accept his loss. In the area of commodities that is perhaps the most salient rule of all. Learn to take your loss quickly; profit will come. Chance dictates that you'll be right some of the time. The question is how much wi!l you lose when you're wrong vs. how much will you make when you're right. And you've got to learn to limit your losses. But you said something about "when to sell." That's human nature. We always think of buying first and selling later. In commodities that isn't necessarily the case, because they travel in both directions and it's not like stock. You can invest in a sale first. The short side of commodities is potentially as good as the long side. The public is hard-pressed to learn that.

It's a hard concept to understand—selling something you don't have.

It's a promise, so to speak. But nonetheless, it's got to be part of the good commodity trader's repertoire. And for that reason good stock firms have done well with commodities, because even in these hard times in the stock market, profits from commodities have continued pretty good. Good brokers have learned that there are two sides to the commodity market and they've learned to tell their customers.

Isn't trading in commodities really just gambling?

The rules of gambling and the rules of chance and probabilities do not apply to commodities, and people who think that are not going to make money in it. It's not gambling. It's supply and demand and economics.

Leo Melamed