Chicago

CHICAGO/JULY 1976

The wave of the futures

Chicago's innovative exchanges have gone way beyond soybeans and pork bellies. Wall Street's soft underbelly may be next.

by Jack Star

A strange and wonderful thing is happening on the floor of the Midwest Stock Exchange on LaSalle Street. Sue Levy, a clerk there, tears two pieces of paper from some recently installed teletype machines and briskly carries them to a man standing behind a high desk.

The pieces of paper are common stock orders. One, from a Bache Halsey Stuart brokerage office at Rockefeller Plaza in New York, offers to buy 200 shares of Standard Oil of California at the market price. The other, from a Bache office in Charlotte, North Carolina, offers to sell 200 shares of Standard of California at the market price. By coincidence, both orders have arrived simultaneously.

Lawrence Augustyn, a young-looking man of 36, a senior vice president of Billings & Co., accepts the orders from Sue Levy, and looks up at the consolidated stream of quotations moving across the wall. Standard of California is priced exactly the same—36⅞ bid and 37 offered—on both the mighty New York Stock Exchange and the more humble Midwest exchange.

Augustyn is a position trader specializing in 22 stocks, including Standard of California. He marks the orders as executed—the stocks from North Carolina are sold to the customer in New York. If the sell order hadn't arrived at the same time, he would have filled the buy order from his own inventory of stocks, but in this case it is just a bookkeeping transaction.

The strange and wonderful thing: this was business that not long ago routinely went to New York; Chicago got only the leavings. It was only on April 19 that Bache—one of America's top five securities dealers—installed Sue Levy and three teletype machines at the Chicago exchange and began routing substantial brokerage business here. Merrill Lynch, Pierce, Fenner & Smith, the biggest of the big dealers, began talking about doing the same. As a security market, Chicago went from Number 2 to Number 1.6.

A number of factors are responsible for this new situation. For one, it is a better deal for the customer: Chicago doesn't charge New York's transfer tax (3 cents a share for non-residents on selling shares costing over $25). For another, Chicago is willing to accept a "combination" order for, say, 125 shares at a single price, whereas New York charges separately for the round lot of 100 shares and the 25-share odd lot.

Securities firms often find it cheaper to do business here. This May the New York floor specialists began negotiating the fees they charged securities dealers, charging 20 and 25 percent less. But the big brokerage firms were still unhappy. Bache moved all of its trading in nine stocks to the Chicago exchange. Implicit in its hiring Sue Levy and installing the teletype machines was the threat that it would divert other business here if New York didn't offer better discounts.

"We told Bache that we don't want just to be your club to bloody New York," says John G. Weithers, executive vice president of the Midwest exchange. "And I don't believe that's what will happen. I think a number of the firms will be trading here for keeps."

Weithers explains that, because of the consolidated reporting tape, which for a year has been supplying quotations to and from all the US exchanges, not just New York's, "people can see what we're doing. If *we* get the orders, *we'll* make the prices.

"When a broker in Los Angeles sees 10,000 shares of a certain stock being traded here — something that last year he wouldn't have known about until he read the next day's papers — he calls now and asks if we need any more of that stock. And we've had instances, too, where New York was bogged down with a sudden influx of orders and had to stop trading. With the consolidated tape we'll get that business—and that can be very big business. On March 20, 1975, trade in RCA stock bogged down because of too many orders, and RCA couldn't open in New York that morning. Midwest put it to trade and traded 221,000 shares!"

The Chicago exchange has been on the way up for some years. Although it currently handles only 8 percent as much dollar volume as the NYSE and trades only 450 stocks to New York's 2,300, the Chicago volume has risen from $3 billion in 1965 to $7 billion last year and to an anticipated level of $10 billion this year. It surpassed the American Stock Exchange's dollar volume several years ago.

"We're thinking of expanding the size of our trading floor, increasing the number of member firms, and attracting more capital," says Weithers. "We're going to be a lot busier place."

The bong of the 9:30 bell announces the opening of trading in the Chicago Board of Trade wheat pit. Paul F. McGuire, a pink-jacketed man in his early sixties, begins shouting himself hoarse.

Somehow, McGuire, a pipe-smoking, Harvard-trained economist, looks out of place in this hurly-burly hustle. He looks more like an Oxford don than a trader. Indeed, before he was 35 this one-time disciple of John Kenneth Galbraith had helped set up the Marshall Plan in Europe. Sent to Turkey, he even had his own government plane, pilot, and bodyguard.

"But I wanted to be independent, so in 1948 I bought a Board of Trade membership for $3,500," he says. Today a Board of Trade seat is worth $125,000—more than a seat on the New York Stock Exchange. And while the Big Board has 7 million fewer investors today than it had four years ago, the Board of Trade has never been healthier, doing half of America's commodity trading.

McGuire, as chairman of the CBT board of directors, helped transform the staid Board of Trade into something new in markets. In his 28 years on the floor, he has won and lost several fortunes, but he has mostly won.

Changing times provided the opportunities for the Board of Trade's big success. Until the early 1970s, commodity prices had remained relatively stable. Grain bins were filled with the agricultural overabundance of the 1960s. The rest of the world still hadn't suffered devastating droughts; when droughts *had* occurred, the poorer countries had no money with which to buy our grain.

When the US dollar was devalued in 1971, however, our commodities became cheaper abroad. Bad weather in the Midwest in late 1972 delayed the soybean harvest. Soybean meal, a protein supplement for livestock and poultry feed, went up from $100 a ton to nearly $400 a ton by the summer of 1973. The anchovy (when ground up, a competitor of soybean meal) disappeared from its normal haunts off the coast of Peru. Another devaluation of the dollar made US agricultural products even cheaper abroad. The Soviet Union negotiated its big grain deal. Bad weather delayed corn and soybean planting. By late 1974, the carryover supplies of corn were at their lowest point since 1948.

All of these events contributed to price volatility, making the Chicago Board of Trade a very busy and profitable place for many (but not all) traders. And the uncertainties of the pricing system made hedging more important than ever. CBT speculators, in effect, serve as insurance men, selling future price insurance to farmer, elevator operators, millers, and exporters.

For example, an Iowa farmer, as he plants his crop in the spring, estimates that it will cost him $2.50 a bushel to produce 10,000 bushels of corn by fall. He wants to assure himself a reasonable profit and somehow insure against the uncertainties of the grain market that await him six months in the future. Seeing that December corn futures are being traded at $2.60 a bushel—a price that will give him a modest profit—he tells his broker to contract on the Board of Trade to sell his corn crop there in December. He has no intention of delivering the corn in Chicago. Instead, he will sell his crop to a nearby grain elevator in Iowa. When he is ready to do so the cash price of grain may have fallen to $2.40 a bushel—a loss for him of 10 cents a bushel. But the price of December corn futures has also fallen to $2.40 a bushel; the farmer has his broker buy 10,000 bushels on the Board of Trade to satisfy his obligation to deliver 10,000 bushels there at $2.60. The farmer thus makes a 20-cent-a-bushel profit on that transaction. This financial juggling act has safeguarded him a 10-cent-a-bushel profit. That's hedging.

The uncertain times have changed the definition of a "commodity." Today CBT provides future markets not only in wheat, corn, oats, and soybeans, but also in soybean oil, soybean meal, iced broilers, plywood, silver, gold, and Government National Mortgage Association (Ginnie Mae) mortgage certificates.

"It all started with the soybean," says McGuire, carefully filling his pipe as he takes a break from the noise on the trading floor. "As recently as 1945 I don't suppose the total US crop was 10 million bushels; today it's 1.4 billion bushels. It didn't take too much thinking for us to say that it would be nice to have trading in the *products* of soybeans—that is, soybean oil and meal. Instead of giving a warehouse receipt we dreamed up the idea of a shipping certificate—a sort of IOU—promising to produce the meal in a certain period of time.

Continued...

"When we saw the success of all this, we thought if we could do it in soybean meal we could do it in plywood. A builder drawing up plans for 100 houses could predict the price of his lumber by using our market. The lumber industry at first resisted, but the builders liked it.

"From this it was evident there was a need to lock in the cost of mortgage money. A builder putting up 100 homes this July has to offer mortgage money, usually at a fixed rate, to the buyers of his houses. This fall, when the homes are completed and he goes out to find the mortgage money, he may have to pay more than he's committed. A Ginnie Mae futures contract increases in price as interest rates rise—price insurance for the builder and for the mortgage banker, savings and loan association, and investing insurance company as well."

These expanded markets offended CBT traditionalists. "We had only about a dozen members, mostly younger fellows, really pressing for change," says McGuire. "Our rival, the Chicago Mercantile Exchange, had maybe the same number of dissidents calling for change. Their competition helped us tremendously."

Not that every idea was an unqualified success. The CBT tried to imitate the Merc by instituting live cattle contracts, but the Merc had the market sewn up and the Board of Trade had to abandon trading. A new wheat contract failed to appeal to the big exporters, who found the old contract more to their liking for hedging.

Speculators, as well as hedgers, have been attracted to the commodities markets—up 136 percent in volume in the past five years, compared to only 60 percent for the New York Stock Exchange. It is the speculators who sometimes give CBT the reputation of a "Las Vegas East," as Warren W. Lebeck, 55-year-old president of the Board of Trade, puts it. But he denies that speculating is gambling. "If you're playing cards or rolling dice, you are *creating* risk by putting money on the line," he says. "In contrast, when speculating on a commodity future you're assuming a risk that already exists. You're an insurance man, not a gambler."

Lebeck is quick to admit that a good number of the 150 memberships sold every year are disposed of by traders who have gone bust. "T here has to be a loss for every gain," he says. "That's trading."

The CBT president is more sensitive about the public's trading losses. Fewer than 500,000 Americans have ever traded a futures contract, whereas 25 million persons own stocks; but the number of futures traders is fast increasing. The speculators among them lose money as often as not, perhaps more often. "We have always preached to them," he says, "that you must have risk capital, money that you can afford to lose. Otherwise, stay out."

The most stunning revolution at the Board of Trade is one that Chairman McGuire says began, almost by accident, in 1971. "We had a license to trade in securities but hadn't traded a stock since 1953," he says. "The SEC said that it was going to cancel our license. We didn't want to lose it because at the moment the commodities business was very slow. That started us to thinking about a market in stock options which then were traded only over the counter."

After several years of thought, with $2.5 million spent on research, the CBT was ready April 26, 1973, to set up a spin-off exchange for stock options in its old smoking room next to the trading floor. It was called the Chicago Board Options Exchange. To keep the SEC from intruding in the affairs of CBT, the Board of Trade made it clear that the new exchange was completely on its own. But since CBT money had been used for startup costs, free memberships were offered to the Board of Trade's 1,402 members for their personal trading, and 300 traders are now members of both exchanges. Other memberships were first sold for $10,000. Today there are 1,300 members and a membership is worth $75,000—a 650 percent increase in three years.

The CBOE is an idea whose time has come. The average daily volume in 100-share contracts increased from 13,000 in January, 1974, to 123,215 in January, 1976. The monthly dollar volume rose from $77.4 million to almost $1.27 billion last January.

What is a stock option? It is a contract to buy a stock at a certain price three, six, or nine months in the future. The exchange currently deals in 84 elegant stocks, including IBM, Xerox, Polaroid, and Avon. By paying what is called a "premium" of about 10 percent of the going price of a stock, you get a piece of paper confirming you own an option. It is not like buying stock on margin; you can't lose any more than the original premium cost. If you hold on to your option and the stock goes up you can sell the option at a profit or ask for your stock at the promised price.

Currently, the exchange is selling only calls (as options to buy are described). But later this summer it will start selling puts—options to sell. This innovation will probably simulate even more business. Chicago's success last year prompted the American Stock Exchange in New York and the Philadelphia-Baltimore-Washington Stock Exchange in Philadelphia to begin trading options. The Options Clearing Corp., located here, handles the complicated paperwork for all three exchanges.

These developments have brought new, well-paying jobs to Chicago's financial district. The CBOE has 1,300 people on its trading floor, 300 on its exchange staff, and 90 persons working for the clearing corporation. Some of these jobs, including those of the computer experts, were filled with Wall Street talent.

The CBOE quickly outgrew its quarters in the old smoking room. New space, half the size of a football field, was created for it by double-decking the space above the Board of Trade floor, which reached from the fourth to the ninth stories. At the 7½-story level, a new trading floor without obstructing posts was built by craftsmen working only afternoons and nights for six months on the $3 million project, in order not to interfere with the trading below.

The modernistic options trading floor is studded with counters and high-up price-displaying TV sets, under which the traders meet. Unlike the stock exchanges, the specialist's function here is split between two traders. The market-maker trades for his own account and does no public business. On the other side of the counter is a board broker who fills orders for a commission. This arrangement is said to improve on the traditional lone specialist, since it eliminates any conflict of interest by a specialist who is both trading for his own account and setting the price of a stock. To enhance competition, some ten market-makers are assigned to each stock.

This is a young crowd, in their twenties and early thirties, on the exchange floor. Many of the traders are refugees from graduate schools. While the exchange dress code requires coats and ties, they're usually jazzy ties. The exchange's young president, Joseph W. Sullivan, 38, came here from Washington, where he'd spent seven years covering Congress for the *Wall Street Journal*. One of his major public relations efforts has been to convince the financial community that crap-shooting and the options market have little in common. He has met with considerable success. A front-page *Wall Street Journal* article, for example, explains options strategies called "domino spreads," "bull spreads," "time spreads," and "even-money spreads" and concludes:

> Despite the wild-sounding terminology, these strategies are essentially conservative ones, appealing to wary traders. They can be used to reduce—but not eliminate—the risk. And that, according to securities dealers who are active in this busy market, is what increasing numbers of options traders are looking for these days.

Options can be used, says the *Journal*, "to increase the dollar income that a portfolio of securities returns, to protect capital from depreciation in a declining stock market, and to gain possible income tax benefits."

Leo Melamed—swarthy, with coal-black hair and the intensity of a tight-coiled spring—is a man in a hurry. As a result of his energy, the Chicago Mercantile Exchange, of which he has been board chairman on and off since 1969, has prospered and expanded almost beyond belief.

Melamed arrived here in 1941, at the age of 9, speaking only Yiddish and Polish, a refugee from Bialystok, Poland. He grew up on the Northwest Side where his father was a teacher of Yiddish and Hebrew (*melamed* means teacher of Yiddish). At 20 he entered John Marshall Law School, working meanwhile as a board marker at the Merc.

The Merc, when Melamed first started there in 1952, was a fuddy-duddy place dealing mainly in butter, eggs, potatoes, and onions. Prices moved slowly but fast enough for the aging membership. While still in law school, Melamed bought a seat, began trading full time in 1966, and was elected to the board a year later.

Melamed was a spokesman for the handful of young dissidents who thought the Merc had started on this road in the early 1960s, when it introduced a revolutionary futures contract in frozen pork bellies (12-14-pound slabs of uncured bacon). Within three years bellies were an amazing success and speculators swarmed to the Merc. Mainly because of the bellies, the Merc was on its way to becoming the world's second biggest commodity exchange. But Melamed and the dissidents were not satisfied.

"We wanted to move into markets that the older members said were taboo because we wanted to deal in unstorable items such as live cattle and, later, live hogs," he says. "It took a lot of convincing. . . ."

But convince they did, and today the Merc deals in live cattle (since 1964), live hogs (1966), lumber in random-length two-by-fours (1969), and yellow grain sorghum, known as milo (1971). In 1972 the Merc organized the International Monetary Market and began trading in what Melamed calls "the ultimate commodity," major foreign currencies. Today the Market lists the British pound, Canadian dollar, German mark, Dutch guilder, French franc, Japanese yen, Mexican peso, and Swiss franc. The market attract hedgers. For example, a Minneapolis snowmobile manufacturer who contracts in June to deliver 500 machines to Tokyo in September insures against the yen weakening and costing him his profit by buying one contract of 12.5 million yen on the Market.

To convince its membership of the need for the Monetary Market, the Merc ordered feasibility studies from economists Milton Friedman of the University of Chicago and Beryl Sprinkel of the Harris Trust. The campaign succeeded. Five hundred Merc members bought seats in the Market at $100 apiece, and an important infusion of young blood came into the exchange when 150 Market seats were sold to young outsiders for $10,000. (Today, the seats sell for $30,000.)

This year the Market began trading in $1 million contracts for three-month Treasury bills—a lively futures trade because it damps down the wide fluctuations that have affected interest rates. A hedger needing to borrow money in 90 days might want to bet on a hunch that interest rates are going down.

The Merc hasn't guessed right about everything. Contracts in bags of silver coins, turkeys, and copper futures haven't gone anywhere. But the Merc's right guesses have been overwhelming. Today the Merc does as much business in a single day as it did in all of 1963. It is such a profitable place that a seat there costs $150,000, compared to $125,000 on the Board of Trade or $89,000 on the New York Stock Exchange.

Leo Melamed permits a visitor to watch him as he charges onto the football field-sized trading floor in the Merc's new $6 million building that straddles the air rights above Union Station. Melamed positions himself at the desk of his Dellsher Investment Co. and hangs back for the moment from the overflowing trading pits. Now and then he scribbles an order on a slip of paper, stamps it, and sends it to another trader to execute, for a fee. It's worth the cost to him, for it gives him a chance to stand back and unemotionally survey the progress of the trading.

"There are a number of trading styles," Melamed says, puffing furiously on a cigaret. "Today I happen to be long on cattle—at the moment, I'm wrong. I trade in everything. I'm a technician primarily." He points to a half dozen charts a clerk keeps for him; they plot the ebb and flow of the various commodities. "Basically, I'm very conservative. The swinger has a very short life span here. The rules of chance don't apply on this floor; its the rules of economics primarily. Every year we turn over 40 memberships, a good number of them by members who haven't been able to make it. It costs money to learn how to apply the rules of economics to the market. The market is a big equalizer of money. It isn't who's big that matters, it's who's right."

Watching the quotations flash past on the electronic board that girds the four-story room, he says: "I'm a professional speculator. When a man comes up to me and whispers inside information in my ear I run away. That's baloney. The market tells me all I need to know." He points to the quotations board—cattle are up almost 10 cents. "By watching the board I know there's something going on in the world."

Melamed scrawls a sell order and signals his clerk to deliver it to a floor trader. "The expected strength hasn't materialized," he says. "I'm cutting my position in half. There's no point in holding on if it continues this way." Suddenly, galvanized into action by a roar from the nearby pork bellies pit, Melamed leaps from his stool and darts over to the pit, jumps inside, shouting a sell order even as he's running. He is just in time to turn a profit.

Returning to his stool, a bit breathless, Melamed recalls the time when he miscalculated a delivery date and ended up with possession of more than 100,000 pork bellies, something that traders try to avoid. " 'Sell them or smell them,' traders say," Melamed laughs. "Outsiders think that, when this happens, six huge trailer trucks back up to your house and dump their contents on your lawn. Actually, I got a warehouse receipt for my bellies and promptly resold them."

Picking up his pack of Winstons, Melamed retreats to his luxuriously furnished office to show a visitor a speech he gave in May to the Society of American Business Writers.

"Did you know," he asks, referring to his speech, "that in 1964 the total transactions of futures at all American exchanges amounted to 6,248,409? The Merc did 249,554 trades of that total or 3.8 percent. In 1975 the total industry transactions were 32,200,103, and the Merc's were 6,401,956 or about 20 percent.

Continued...

"In other words, futures trading in the US has increased by more than 500 percent in the last eleven years. Significantly, while the Merc remains in second place to the Board of Trade, our share of business has grown from 3 percent to 20 percent. It is also significant that more than 80 percent of all futures business is transacted in Chicago, and thus the city has become the uncontested capital of futures markets."

What does the future hold for the Merc? Well, Melamed says, the Merc will undoubtedly be dealing in all sorts of new "commodities." Your guess is as good as Melamed's: atomic fuel, crude oil, dog food? Who knows? At any rate the four-year-old quarters of the Merc are already bursting at the seams. "We've got a thousand people on the trading floor now, and there's no room for them," Melamed says. "What we're going to do is tear down one of the walls and extend the floor by another 100 feet."

The MidAmerica Commodity Exchange has never been a very fancy place. For a while in the nineteenth century, as the Chicago Open Board of Trade, its members traded outdoors in the bitter cold at the corner of Washington and LaSalle Streets. In the twentieth century, it moved to the luxury of second-floor quarters above an African art shop, a porno shop, a pawnshop, and a restaurant whose greasy cooking odors permeated the trading floor. The nearest washroom was upstairs on the eighth floor.

By the 1960s the exchange was able to attract only 164 members, a seat fetched less than $1,000, and the exchange's net worth was only $160,000, including eight cemetery lots that somebody had bought for aging members who might need them. The lots turned out to be worth only $25 apiece—a bad investment.

The big boys at the Chicago Board of Trade and the Merc looked down on the little fellows at the MidAmerica. But its littleness turned out to be the MidAmerica's strength. The MidAmerica deals in contracts that are from one-fifth to one-half the size of the contracts traded on the CBT, the Merc, and New York's Comex. Instead of forcing a customer to buy a 5,000-bushel wheat contract, the MidAmerica will sell him one for only 1,000 bushels.

For a long while this trading advantage didn't seem to mean much, but the payoff came in the volatile markets of the 1970s. Leaving General Mills' business to the Board of Trade, MidAmerica sought out the smaller millers, the smaller grain elevator operators, the smaller farmers, and the smaller speculators. The smaller contracts were tailormade for them. MidAmerica could handle a 7,000 bushel hedge, whereas on the CBT a farmer had to buy two 5,000-bushel futures contracts.

The exchange dealt in corn, wheat, soybeans, silver, and silver coins. In 1974, when gold was added, MidAmerica also added a contract for 15,000 pounds of live hogs (about 70-75 animals), an amount that was realistic when catering to the needs of the average farmer. The exchange now trades 13,000 such contracts a month. "You see," says Charles J. Fanaro, Jr., executive director, "we're proving that we aren't just a parasite, feeding on the droppings of the big exchanges."

Fanaro is an interesting case in point. A husky man close to 40, whose grandparents came from Sicily, Fanaro studied philosophy at the University of Chicago. A plunger from the beginning, he once tried to charter a barge and fill it with Honduran oranges when a frost destroyed most of the Florida crop. Then he took to the commodities market and lost a good deal of money going short on pork bellies.

"I wanted to see where my money went, but I didn't have enough money for a membership on the Merc or the Board of Trade," says Fanaro. "So, in 1966, I bought a membership at the MidAmerica for $850 and commenced trading with $270 I had borrowed."

Fanaro did fairly well, making $125 to $150 a day—not bad for a begginer. "But one week," he says, "I went away for a vacation, and on the very day I returned I lost $1,000. That taught me a lesson. You have to apply yourself and develop discipline."

Fanaro did apply himself, as did such illustrious traders as a South Side youth named Richard Dennis, who at the age of 20 borrowed $1,600 from his father to buy a seat and quickly became a multimillionaire. Several young men at the MidAmerica became affluent enough, like Dennis, to buy seats on the Board of Trade, but they also retained their MidAmerica memberships.

"In fact, they did so well," says Fanaro, "that in 1975 the MidAmerica's revenue actually declined from 1974. Our biggest traders were spending their time at the Board of Trade. But this proves that the MidAmerica is a good place to learn—you can limit your losses. It's like when learning how to play poker: you play penny ante instead of table stakes."

The newly successful boy millionaires, like Dennis, attracted the attention of Chicago's fascinated financial writers. The resultant publicity in turn attracted hundreds of new members who realized what a good deal they were getting in the cheap memberships. Today there are 850 members, and a seat trades for $7,000, up eightfold from the days when Fanaro bought his membership.

All this prosperity has enabled the MidAmerica to move to more respectable quarters in the Insurance Exchange Building, 175 West Jackson. In a high-ceilinged room on the second floor, which boasts the luxury of its own private washrooms, the traders crowd upfront under a huge blackboard. As a flashing display tape carries trading prices from the Merc and the CBT, a number of clerks scrawl the figures in chalk on the blackboard.

The changing numbers trigger loud offers to buy and sell from the noisy traders. Several direct-line telephones on the trading floor enable the members to deal directly with the Board of Trade and the Merc. The telephone link helps assure liquidity: if a trade can't be executed here it can be executed on the other exchanges. It also permits arbitrage—the taking advantage of disparate prices on the various exchanges to turn a profit. He can buy, say, a quarter-cent cheaper on one exchange and sell for a profit on another.

"It's a nothing market today," says Fanaro. "There's nothing happening. Let's see if I can stir up some action!"

Bustling over to where the wheat traders are congregated, he shouts: "Sell five July a quarter!" "Sold!" a red-faced young man shouts back. Fanaro has just gone short 5,000 bushels of July wheat at $3.44¼ a bushel. Even as he records the transaction on his trading card he realizes that this is a losing position for the market is just starting upward. Simultaneously, he notes that soybeans are turning upward too, so he runs over to where they are being traded and hollers: "Five July beans a half!", buying 5,000 bushels at $5.13½. Moments later he sells the soybeans for three-quarters of a cent more, making $37.50.

Now Fanaro has to get out of hs bad wheat deal. He notices that the wheat traders are being bullish as they watch the beans going up, expecting an accompanying rise in wheat. Fanaro sees an opportunity; he thinks the traders are too optimistic. He quickly sells 10,000 bushels of wheat at $3.44¾ and the price of wheat immediately starts declining. Now he starts buying wheat: 3,000 bushels at $3.44½, 3,000 at $3.44¾, 3,000 at $3.44½, 5,000 at $3.44½, and 1,000 at $3.44½. Whew!

Fanaro has extricated himself from his first bad trade. In five minutes, deducting his clearing member's charges of $1.60, he has a net profit of $44.65. Not bad for five minutes.

Fanaro leaves the floor to take care of some exchange business. He has to interview a prospective new member. "There's nothing like trading here," he can be overheard saying. "This is the last frontier of capitalism. There should be 25,000 Chicagoans coming here tomorrow morning to buy a seat. Maybe 15,000 of them wouldn't make it, but for those who do, this is a wonderful way to earn a living. Where else can you make your money in the morning and take the afternoon off?"

"The Board of Trade, the Merc, and the MidAmerica have been good for Chicago," says Michael Weinberg, Jr., treasurer of Weinberg Bros. & Co., Chicago's oldest commodities firm, and a former chairman of the Merc.

"Between the three exchanges and their members, they employ 6,000 people, with a payroll exceeding $150 million a year. They occupy 2 million square feet of downtown office space. They keep a billion dollars in operating funds and a minimum of $400 million in margin money in Loop banks. The existence of the exchanges has encouraged many branches of foreign banks to locate here."

New York is disintegrating as a financial center," says the financier who wants to remain nameless as he fingers an invitation from the First National Bank of Chicago and the Chicago Association of Commerce and Industry. "That's what this invitation is all about."

The invitation is to an all-day conference July 12, jointly sponsored by the bank and the Association at the First Chicago Center. Those invited are an exclusive group of 500 persons—the chief executive officers of Chicago-based companies and their chief financial officers. Also participating are officials of the Midwest Stock Exchange, the Board of Trade, the Merc, the MidAmerica, the Options Exchange, banks, and investment firms.

A major speech and two panel discussions will deal with where Chicago has been as a financial center and where it is going. The panels will discuss what must be done to enhance the business and legislative climate to make Chicago even more attractive.

With New York disintegrating," says the financier, "Chicago will want to take over its share of the business that New York is going to lose." ■