Why Markets Interest Me (March 10, 2019)

It was in October 1976 that I acquired my first direct experience with markets. I was working at the Chicago Board of Trade as a young reporter. For a year before that, I had been a stringer for Knight-Ridder in Argentina, covering the export markets for corn, soybeans, and wheat, and a year into my stay, the company offered me a staff position in Chicago. The Knight-Ridder office was at the Board of Trade in downtown Chicago, and my first assignment was the silver futures market. Silver was a minor trading pit; the Comex exchange in New York dominated the precious metals markets. The smaller one in Chicago was useful mainly for incurring tax losses that could be used to reduce a trader's liability for profitable trades, the practice finally outlawed during the Reagan years. After a month or two of silver, I covered the soybean complex, and eventually, like most reporters, ended up writing on every commodity listed at the exchange.

After a year, I went freelance and began working for local news organizations and *The Financial Times of London*. The paper wanted weekly reports on commodity prices from the exchange. I handled these projects for about a dozen years, then left futures trading for other editorial projects and foreign travel. I cannot say that I was ever tempted to trade futures myself, though I did consider the possibility of handing funds over to my friend Ed Taylor, a successful trader who managed money for a number of clients. I never did, though--it seemed too risky.

I could of course have traded for myself, even when I was a reporter. This was actually the topic of my novel, *The Fibonacci Deception.* Trading became less of an option after R. Foster Winans of the Wall Street Journal created an enormous scandal by leaking market-moving information to a broker and sharing in the profits of illicit trades. (Winans went to prison after a prolonged spell of litigation and later produced a fine memoir of his experience called *Trading Secrets.*) After the scandal broke in 1986, news organizations began formally prohibiting reporters from trading on the markets they covered. It was never encouraged before, but I don't know if it would have cost reporters their job.

Still, if I never traded futures, I never lost interest in markets and the way they behave. And I did begin tracking stocks and options, especially when the public's taste for trading seemed to peak in the late 1990s. I sold put options against stocks that had done badly and sold call options against some of the stocks I owned. As I pointed out in one of my earlier LinkedIn pieces, these trades were not always successful. I remember in particular put options on MicroStrategy and Lucent—who now remembers Lucent?—that cost me a bundle. But some of the trades worked, and I still sell the occasional call against a stock of mine if it rallies.

Investing is different from trading, of course, and when I began to approach the shores of retirement I became more cautious with money. I set my trading propensities aside, for the most part, and focused on what I thought were attractive investments. I should point out that choosing stocks was very different in the years before the internet. Young people in particular take this for granted, but back in the 1980s and at least the early 1990s, studying securities was a very different experience. I lived in a Chicago neighborhood called Andersonville, and most of the financial newsletters I read were at the Northwestern University library in Evanston. (Local branches of the Chicago Public Library lacked the essential publications.) Computer terminals with access to stock prices and charts were a few years away, and my methods were old-fashioned: pick up a copy of the *Wall Street Journal* for current quotes and consult the newsletters.

I would buy the paper at the Berwyn stop of the Chicago L, the station nearest my home. I'd ascend the stairs to the platform and take the Red Line north to Evanston. At the Northwestern library I read *Value Line* reports and the weekly edition of *Standard & Poor's Outlook*. The latter in particular, and not only the current issue but back numbers too, would highlight companies that were doing well and expected to do better. But I think that my sense of the market was improved, at least a bit, by those early years at the Board of Trade. Commodities, stocks, bonds and options move in response to different fundamentals, but they do exist as markets and have a lot in common.

From my years in futures, I think I developed the ability to spot panicky liquidation unrelated to market fundamentals. Markets get over-bought, "frothy," in the term the business press enjoys, and it helps to have a sense of when group anxiety has overtaken the market. "Buy the rumor, sell the fact" was another axiom on the floor of the Board of Trade. I learned to disregard news about a firm once it became available to the larger public (including me). The information has already been absorbed by professionals in the market every day. If I saw a company profiled in a cover story in *Business Week* or *Fortune*, I thought it best to disregard it and the attention it was attracting. Traders and analysts interviewed for the story, and myriad others connected to them, knew what was happening long before the reporter wrote his story. I sought out firms you can find in *Value Line* and *Morningstar* that seemed to be doing well but were dull—like gas utilities—and which seldom drew the interest of the investing public. Neglected stocks interested me the most, though the massive expansion of disseminated information has certainly made them harder to find.

None of these methods or publications guarantee success in choosing stocks, of course. And I would never encourage people to trade. As I noted in a previous post, the unexpected bit of news can derail the most carefully assembled portfolio. For every Peter Lynch and Warren Buffett, thousands of others (including myself) make the wrong choices. And even the legendary Buffett came a cropper with Kraft-Heinz.