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Title: COMMODITIES: COMMODITY TRADERS DO BETTER THAN BELIEVED, STUDY FINDS -- ONLY THREE-FOURTHS LOSE MONEY
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Abstract: A new study has shown that only three-fourths of commodities traders lose money, as opposed to the 90% that conventional wisdom says. Commodities trading, and the lack of profit involved, is discussed. On the commodities markets on Aug 9, 1991, grain traders expect the Agriculture Department to forecast that US corn farmers will harvest about 7.45 billion bushels, down about 6% from 1990. Petroleum futures prices will likely continue their rollercoaster ride of recent sessions and traders are anxiously awaiting the Agriculture Department's cotton crop report.

Article Text:

Conventional wisdom is that 90% of all commodity traders lose money, but that's wrong. Only three-fourths do.

At least, that's the experience of people who trade through Lind-Waldock & Co., the largest U.S. discount commodity broker. Last year, 26% of Lind-Waldock's customer accounts were profitable. And of the customers who traded more frequently -- as measured by the commissions they ran up -- a bigger portion turned profits.

'Our clients only trade when they want to trade,' says Elliot Bercovitz, vice president for strategic planning at the Chicago company. He adds he isn't surprised that successful traders are the more active ones. 'For the most part, people who lose quit trading,' he says. 'People who are successful trade more.'

Still, why don't more futures traders make money? No one has puzzled over this question more than Mark Douglas. In 1978, he was managing a commercial property insurance agency in Michigan when he heard about the fortunes that could be made trading commodities. Unfortunately, he never heard about the fortunes that could be lost, and by 1981 he was losing money steadily.

The combination of a profligate life style and losses in futures markets caused Mr. Douglas to file for personal bankruptcy in 1982. As he met others who had stumbled in futures, he began cataloguing what caused traders to be losers. Eight years later he put his observations into a book, 'The Disciplined Trader: Developing Winning Attitudes.' Along with the book came a new career of helping traders overcome their profit obstacles.

One of them is Colin Johnston, 53 years old, a former banker who decided two years ago he wanted to make a living doing something that didn't involve 'interpersonal politicking.' He moved from Chicago to Golden, Colo., where he hopes to live off his futures trades.

He says Mr. Douglas teaches that most traders lose because they are beset with fears -- of losing, of being wrong or missing an opportunity. He says he is still in the process of conquering those fears but that he succeeded in breaking even in 1990 and is slightly ahead so far this year.

Mr. Johnston says he, and many others, take up futures trading with the notion that it is an easy way to make money. His first couple of trades were profitable, and then, he says, 'I got hammered.'

Though he is making progress, he says he still does dumb things because 'I still have vestigial beliefs in my own invulnerability.' Recently, for example, 'I went on vacation with a trade open. And I was following it with the wrong [quote machine] symbol.' For several days he enjoyed his vacation in the belief he had an unrealized gain on the trade, only to discover he had an 'unrealized break-even' instead.

Another client of Mr. Douglas's is David Davies, owner of a Houston travel agency, who used to blame 'them' or 'the market' for his losses.

As many traders are advised to do, after opening a position in a commodity, he entered a 'stop-loss' order to protect profits on the trade, or at least to limit the loss. His problem was that as the price of the futures contract approached the stop-order price level -- at which point it would be executed -- he would cancel the order and enter another one at a price further away.

For example, in the summer of 1990 he was holding a paper profit of $50,000 in soybeans. 'The price started to go against me and I told myself I had better move the stop or I would be taken out of the trade,' says Mr. Davies. After doing this several times one of his stop-loss orders finally was triggered and his position was closed. But he ended up breaking even rather than making money.

Mr. Douglas says that many traders, such as Mr. Davies, are unable to take money out of the market because they have doubts about their own self-worth and the morality of taking money from other traders. 'They can't convince themselves it's all right to make money as a trader,' he says.

Mr. Douglas suggested that Mr. Davies make a series of small, profitable trades, which would help him trust himself. 'After I had done 10 or 12 of these trades, I learned that when I said I would get out, I actually would do it,' Mr. Davies says proudly. Each trade netted Mr. Davies about $35 or less after commissions. He adds, somewhat sheepishly, that when Mr. Douglas told him about this scheme he thought it too simple and resisted trying it for a month.

'I have also learned that the market isn't wrong but I can be, and it's okay,' Mr. Davies says. He is consistently making money, he says.

Looking ahead to commodity markets this week:

Grains and Soybeans

Grain traders expect the Agriculture Department to forecast today that U.S. corn farmers will harvest about 7.45 billion bushels, down about 6% from last year.

The government had calculated a month ago that, with good growing weather, the corn harvest could possibly climb about 4% from last year. But crop analysts are speculating that a scattered Midwest drought in June and July probably reduced the potential size of the corn harvest by roughly 830 million bushels.

Today's monthly crop report is the first of the growing season that is based on field surveys. The government's earlier calculations of the crop's possible size were based on planted acreage and historical data.

Among other things, the crop report will signal whether the nation's corn stockpile might shrink to relatively tight levels by autumn 1992. Corn prices could become volatile if it appears likely that only one billion bushels would remain in storage by the time the 1992 harvest begins.

Because the surveys are based on Aug. 1 conditions, the report probably won't reflect last week's rains that improved the condition of the Midwest soybean crop. The average guess among grain traders is that the government will peg the soybean harvest at 1.82 billion bushels, down about 5% from last year's harvest.

Amid the crop-saving rains last week, soybean prices at the Chicago Board of Trade sank about 13%.

Energy

Petroleum futures prices this week will likely continue their rollercoaster ride of recent sessions, moving higher on reports of production problems dragging on in the North Sea and lower again as logistics of Iraqi exports are worked out. If last week's trading is any indication, the seesawing will leave prices right where they started, hovering somewhere just above $21 a barrel on the New York Mercantile Exchange, barring other news.

Gasoline, however, may continue to be a different story altogether. It has shown persistent strength since government and industry reports that actual U.S. consumption of the motor fuel has been higher this summer than early estimates indicated. Except for technical adjustments and profit-taking, gasoline is widely expected to continue to move higher, at least until Labor Day, which marks the end of the traditional U.S. driving season.

Cotton

Traders will be anxiously awaiting the Agriculture Department's crop report this afternoon.

On Friday, worries the estimate would come in higher than expected prompted investors to buy put options as insurance against lower prices, said O.A. Cleveland, an economist with Mississippi State University and a consultant to cotton farmers. Put options are contracts that give the buyer the right, but not the obligation, to sell the underlying futures contract.

The sellers of the puts, in turn, sold futures contracts to offset their positions, Mr. Cleveland said. Nervous futures investors also may have sold after seeing the rush of options activity, he added.

Current private estimates of the crop size range from 16.2 million bales to 16.7 million bales, Mr. Cleveland said, but investors and the cotton industry fear the new Agriculture Department estimate could come in as high as 17.2 million.

In July, the department estimated this year's crop at 16.2 million bales, up from last year's 15.5 million-bale crop. Although spring plantings were delayed by bad weather, ideal growing conditions over the past month have allowed the crop to nearly catch up, Mr. Cleveland said.

Sharon Johnson, cotton specialist at Cargill Investor Services, said she has heard estimates as high as 17.5 million bales, but Cargill expects a crop size of 17.1 million bales.

On Friday, cotton for October delivery ended 1.62 cents lower at 67.15 cents a pound. If the estimate comes in above 16.8 million bales, futures prices could fall to the low 60s over the next month, Mr. Cleveland said.