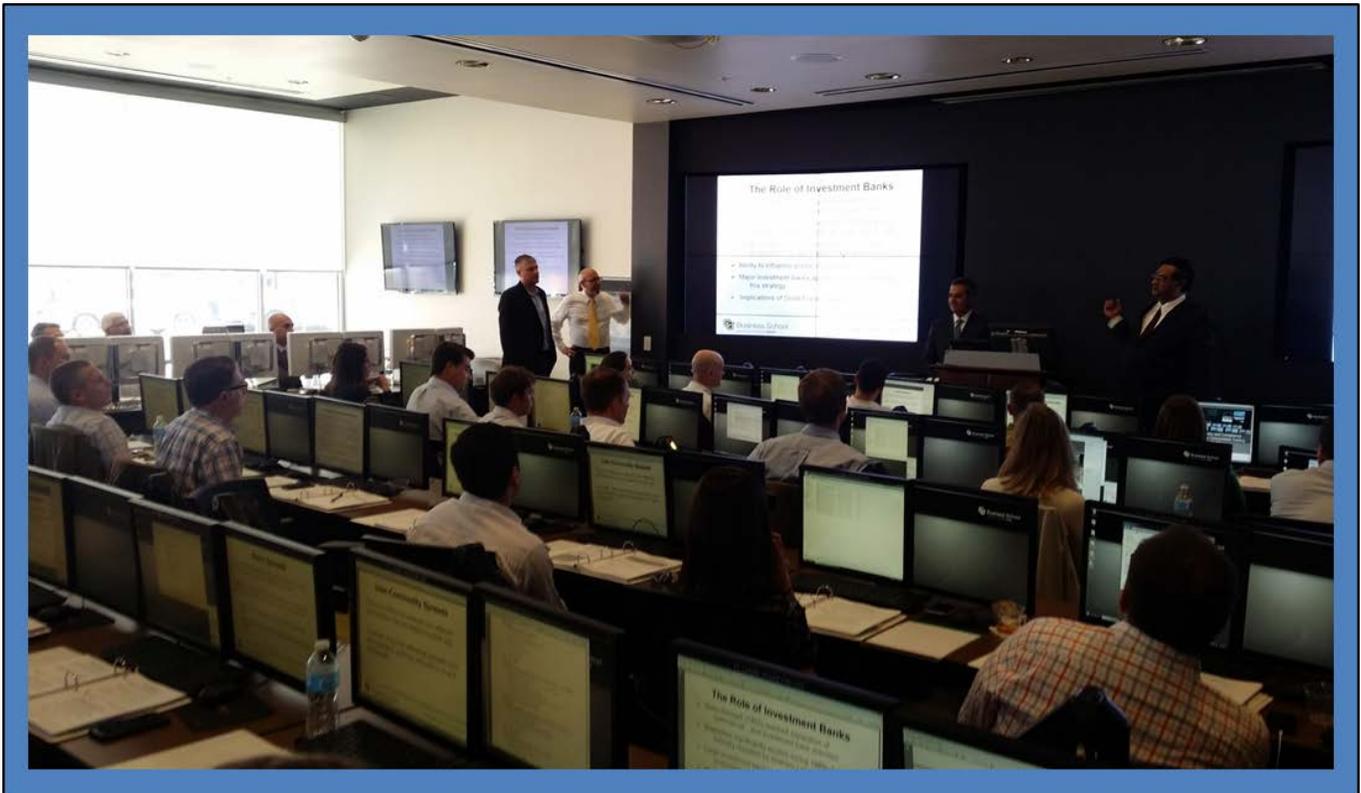




An In-Depth Exploration of the Commodity Markets is Essential for a Well-Rounded Business Education

Andy Hecht

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At the Professional Education class in the J.P. Morgan Center’s Commodities and Finance lab on March 30th 2015, standing, from right-to-left, Ajeyo Banerjee, Ph.D., Executive and Faculty Director of the Center; Roy Salame, Vice Chairman, J.P. Morgan; *Andy Hecht*, Subject Matter Expert; and Thorvin Anderson, Content Director of the Professional Education course, “Foundations of Commodities.” The J.P. Morgan Center for Commodities is part of the University of Colorado Denver Business School.

A traditional business education at institutions in the United States and around the world tends to focus on theory and practice in debt, equity and foreign exchange markets. Universities generally do a good job teaching students economics, accounting, finance, risk management theory and a whole host of other business disciplines. When it comes to one important business vertical, commodities or markets for raw materials, education is often the result of on-the-job training.



Mainstream Institutions and Commodities

Undergraduate and graduate degrees in business rarely offer an in-depth exploration of commodity markets. While many institutions of higher learning will touch on the raw material sector, this education is generally limited to a few electives or self-study style programs. Mainstream business education excludes the world of commodities. This is surprising considering the importance of commodity markets on a global basis. Commodity production is limited to certain geographic regions. Only in appropriate climates or regions where mineral ores are present or crops can grow does production take place. However, consumption of these raw materials is ubiquitous. The widespread nature of consumption touches every business in the world. That is why education in this area not only has benefits; it is an imperative for a well-rounded business education.

Four Reasons That a Business Education in Commodities is Essential

While there are many reasons that our educational institutions should be teaching the business leaders of tomorrow about commodity markets, four stand out.

1- Raw material prices directly affect almost every business worldwide: one can find commodity applications in every business sector. Consider agricultural commodities and their importance to food businesses. Think about how energy affects the logistics of bringing goods to markets. Additionally, direct manufacturing requires the input of commodities. These are just a few examples. In all cases, commodities are a key cost of goods component in the success or failure of all businesses.

2- Risk management in commodities differs from other markets: commodity prices tend to be highly volatile. Commodity prices generally trade in much wider price ranges than other assets including stocks, bonds and currencies. Therefore, understanding and monitoring the price risk in commodity markets requires a different set of risk management standards and tools.

3- Each individual commodity has a different set of idiosyncratic attributes: commodities are an asset class, but each sector and individual commodity within that sector has a set of characteristics all its own. For example, corn and wheat are both grains, but each has very different production and consumption issues. Crude oil and natural gas are both energy commodities, but each affects the cost of goods sold of a wide range of different consumers. Copper and zinc are both base metals; however, for each there is a different process that transforms ores into metals. In each of these cases, the idiosyncrasies influence price, which is an input in the cost of running and managing many businesses. Understanding these issues improves results from both a management and profitability standpoint.

4- The finite nature of commodity production is at odds with demographics: as world population grows, the demand for commodities increases. Increasing demand requires increased supplies. In 1967, the world's population stood at just under 3.5 billion people. In 2015, it exceeds 7 billion. Farmland is finite. Mineral ore deposits are finite, as are energy reserves. Population growth has and will put strains on commodity resources, which will affect commodity prices.

Therefore, raw material markets are a key component in a well-rounded business education today.



Funding and Participation is in the Best Interest of Business

It behooves business to support education in commodity markets. Not only will it provide a new crop of commodity-savvy employees for the future, it will save both time and resources when it comes to on-the-job training. A standardized commodity education trains employees with a competitive edge. Incorporated into existing business degree programs, a commodity education enhances the program and its graduates. University-based continuing education programs also sharpen the skill sets of existing employees and managers.

Corporations in the United States have been supporters of the institutions from which they harvest employees. Universities depend on these corporate donations to improve programs and enhance the addressable market of highly-qualified employees for the future.

Therefore, well-designed commodity education programs can potentially be of great benefit to universities, their students, and to future employers in the commodity industry.

Endnotes

This article was originally published in “Seeking Alpha.”

The J.P. Morgan Center for Commodity Markets offers a professional education course on the “[Foundation of Commodity Markets](#),” which provides precisely the type of in-depth explorations of the commodity markets that Mr. Hecht advocates for in this article. For more information on this course, please contact Mr. Matthew Fleming, Program Coordinator, J.P. Morgan Center for Commodity Markets, at matthew.fleming@ucdenver.edu. The next course offering is on April 18th and April 19th, 2016 at the University of Colorado Denver Business School.

Author Biography

Andy Hecht

Mr. Hecht is the chief market strategist for Carden Capital and Carden Futures. Previously, he spent nearly thirty-five years on Wall Street, including two decades at the trading desk of Philipp Brothers (which became Salomon Brothers and which later, in turn, became part of Citigroup before ultimately being spun off to Occidental Petroleum.) Mr. Hecht has unique insights into the commodity markets that are a result of his rich and varied Wall Street experience: he’s booked vessels, armored cars and trains to transport and store a wide range of commodities as well as working directly with the United Nations.

Mr. Hecht is also a [Subject Matter Expert](#) for the “[Foundations of Commodity Markets](#)” Professional Education course at the J.P. Morgan Center for Commodity Markets, University of Colorado Denver Business School.