# Open Outcry Traders History Project Captures Traders' Stories from Bygone Era:
***Their Stories Live on Even if They Don't***

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Survival as a trader in the open outcry futures trading pits was never easy. Beyond the normal economic risks of trading, the growing pains of new financial futures markets starting in the 1970s caused many headaches and heartbreaks, as did macroeconomic events in the traditional commodity markets.

Then electronic trading created an existential threat to open outcry trading and its traders.

*John Lothian News* (*JLN*) seeks to capture the stories of the open outcry traders before they perish for good. In March 2019, *JLN* announced the Open Outcry Traders History Project. It was modeled after the Veterans History Project signed into law by then-President Bill Clinton in the 1990s.

*JLN* had started down the road of recording derivatives industry history on video when we embarked on a multipart series titled, "The History of Financial Futures" in 2011. We were afraid then that the pioneers who created the modern era of markets and finance were disappearing when Chicago Corporation founder Jack Wing passed away.

Too many traders are already gone, taking their colorful and sometimes NSFW (Not Suitable for Work) stories with them. Open outcry trading was an important method of commerce in the U.S. for much of the nation's history. We needed to capture the stories of the people who participated in open outcry markets in the U.S. and around the world, from futures, equities and options traders.

Our first interview was with Leo Melamed, the chairman emeritus of the Chicago Mercantile Exchange (CME) and someone who found his way to the CME in the 1950s when it was on Franklin Street in Chicago. Leo was among those who found a career in the markets by accident.

Melamed wound up at the CME when he answered an advertisement for a runner's job that he thought was for a law firm. He was in law school at the time and a friend told him about the job listing in the *Chicago Tribune* for a law firm named Merrill Lynch, Pierce, Fenner & Beane.

Melamed applied and was hired; however, the firm was not a law firm but a brokerage firm with operations at the Chicago Mercantile Exchange.

As a trader, Melamed's bias is to be a bear and make money from the short side of the market.

There were many reasons he gave for this bias, including the public's bias to only go long. He said, "The public does not know how to go short."

During the 1970s oil embargo, at a time when the CME's International Monetary Market (IMM) currencies were still illiquid nascent contracts, Melamed got caught short the Swiss franc. "The Swiss franc went crazy," he said, adding he was trapped and could not get out of his position for days, which cost him a lot of money. By the time he did finally cover his short Swiss francs position, it was his worst trade.

Melamed said he went broke three times, all in his early days when he was trading eggs and onions at the Chicago Mercantile Exchange. After going broke the last time, on September 13, 1969, he went down to the trading floor after the close to look amid the mess of paper on the trading floor for the paper from the calendar entry for September 13. He found it and had it framed and vowed never to go broke again.

Our first series of interviews also included early adopters of financial futures at the Chicago Board of Trade (CBOT). Many times they learned lessons the hard way because of the newness of the financial futures contracts and their inexperience, despite quality academic training.

Gary Sagui was steeped in the efficient market theory after earning a Master's degree from the University of Chicago. However, he found the markets were inefficient when the Treasury futures quarterly roll occurred. Traders with long positions in Treasury bonds, not wanting to take delivery, would be first movers and liquidate their longs before the delivery period. Then the shorts, who were required to hold their positions in the months with the most open interest, would be forced to shift their positions to the next month. Despite everyone knowing this was going to happen, per efficient market theory, Sagui and his brother were able to regularly profit from this inefficiency.

The Saguis would eventually put on "insanely" sized positions, representing as much as 10% of total bond open interest, before learning not to trade so big the hard way. They never traded that big again.

Bill Dudley joined Merrill Lynch after the Army and his first job was getting coffee for Treasury traders. Eventually, he came to Chicago to work for Hornblower & Weeks, who gave him a CBOT membership that allowed him to trade the then-new Government National Mortgage Association (GNMA or Ginnie Mae) futures.

Dudley later found himself with a position in a failing commercial paper contract, whose open interest dropped to just two contracts, with Dudley short the two remaining contracts open. He suddenly realized he had no chance of finding the commercial paper to make the delivery and if he defaulted on the contract he would lose his job and be kicked out of the CBOT.

Near the last day of trading, a Continental Grain trader came into the commercial paper pit and asked "What's here?" Dudley responded, "Offered at 30." The Continental trader, representing the long, said "Sell 2 at 20." Dudley said "Sold." Then Dudley did something to make the Continental trader look good. The market had no open interest, but Dudley offered the market limit down. Since the Continental trader liquidated the customer's long position before the market was offered limit down, Dudley ensured it looked like the customer received a good fill.

Dudley's best trade ever was a $500,000 loss, but a trade that could have been five times worse. The issue Dudley and his customer had that led to the loss was a structural misunderstanding of the dynamics of the GNMA contract duration versus the 30-Year Treasury Bond futures. The problem Dudley could not figure out while in the trade eventually led to the GNMA futures contract failing and being delisted.

Capturing the stories of open outcry traders before they pass away proved prescient for a couple of our interviews. We interviewed longtime Chicago Mercantile Exchange Chairman Jack Sandner before he passed away in 2020. Sandner was a Notre Dame-trained lawyer who found himself representing the CME president, Everett B. Harris. Harris tried to recruit Sandner to CME membership by inviting him to a holiday party held by CME Chairman Leo Melamed.

When Sandner attempted to enter the holiday party, he was rebuffed by a couple of traders at the door who told him that it was Leo Melamed's party, not Everett Harris' party. A fight broke out and Sandner, a former Golden Gloves boxer, knocked out one of the traders, who Sandner later learned was a prominent cattle trader.

Sandner would eventually give the CME a look, become a member, join the board of directors and become its longest-serving chairman.

Sandner was a newly elected chairman of the Chicago Mercantile Exchange during the Hunt silver market corner in the late 1970s. While the CME had a silver futures contract at the time, it was in the live cattle market -- where the Hunts were also active -- that Sandner found himself on the wrong side of the market.

During a Chicago Mercantile Exchange board meeting, Sandner and the board made the decision to force the Hunts from their long cattle positions. Sandner was also long live cattle futures, with a limit-size position. The Hunts had over-sized positions well beyond speculative size limits, as they had filled out the exchange's forms and declared themselves hedgers. Sandner and his board voted to "blow them (Hunts) out of the market," he said.

After the board decision, the live cattle market went down the limit three days in a row, causing large enough losses for Sandner that his friend and mentor Leo Melamed and his partner Maury Kravitz called Sandner's home and talked to his wife. They told his wife they were worried about Jack as he had taken severe losses. Sandner described the market action as "destroying him."

When Sandner came home, his wife told him Melamed and Kravitz had called and asked if there was something he needed to tell her. He told her no, but said that now that she knew, he was headed back down to the exchange to wait for the market to open rather than pretend to try to sleep.

After three days of limit down and a preliminary call of limit down the fourth day before the opening, Sandner said he was told the market was getting some buy orders coming in and might not open lower. Closer to the opening, Sandner was told there were plenty of buy orders coming in, and his friend Terry Brennan said he could get him out of the market.

However, Sandner said no, he was going to stick with the losing long position. His friends kept badgering him to "get the hell out." Sandner finally agreed to get out if the market were to trade 15 points lower than the previous close. The market traded 10 lower, then "turned on a dime," Sandner said and shot to limit-up. It traded limit up for two more days, then opened higher the next day and Sandner finally liquidated his limit position in live cattle. It ended up being his best trade ever. He made about $100,000 on the trade. After he got out of the position, he went to St. Peter's Church in downtown Chicago and thanked the Almighty.

Larry Abrams found his way to the market via a good deed. He and some friends stopped to help a car stranded on the side of the road during a blizzard on a ski trip to Park City, Utah. The next day as Abrams was getting on a ski lift, he was paired with the man whose car had broken down. The man was a member of the Chicago Board Options Exchange (CBOE), and by the time they were done with the ski lift ride, Abrams knew what he wanted to be: an options trader.

Abrams was from Philadelphia, so he checked out the Philadelphia Stock Exchange for opportunities. He was hired by Cooper Neff as a market maker.

However, Abrams' exchange trading would later bring him to Chicago, after a stop at Kansas City Board of Trade (KCBT), where he was to set up a futures trading operation for Cooper Neff to hedge their Value Line Index options trades with the nascent Value Line Index futures.

Abrams and another trader from Philadelphia were not well received by the old-time wheat traders and their progeny at the KCBT. Abrams was given a very unsentimental nickname and was referred to with various anti-Semitic incivilities. When Abrams was asked by Cooper Neff's head trader in Philadelphia to sell 600 contracts of Value Line futures, a sizeable order that the pit had never seen before, it created all kinds of trouble.

Abrams took the order and went into the Value Line pit and asked, "What's there?" The other trader from Philadelphia, representing Philadelphia Trading, which later became Susquehanna, said, "50 bid." Abrams yelled, "Sold." How many, the Philly trader asked. Abrams said "100." Abrams again asked, "What's there?" The Philly Trader again said, "50 bid." Abrams said, "Sell you 500 at 40." The Philly trader said, "Sold."

Both traders were rushed by other traders in the pit who had witnessed this huge trade (by KCBT standards at the time) and called them every name in the book. The traders accused them of pre-arranged trading. Eventually, exchange security showed up and whisked Abrams and the Philly trader away from the trading floor, saving them from a potentially dangerous situation.

The Commodity Futures Trading Commission (CFTC) office was across the street from the KCBT, and an official came over to interrogate them about the trade. Abrams and the other trader were barred from the floor for 10 days while the matter was investigated. In the end, the trade turned out to be legitimate and both were restored to full membership rights.

The traders of the open outcry era came from many different places, with varying levels of education and direction in their lives. Once they found the action of the open outcry markets, they were hooked. The open outcry era is slipping into history, as are the traders, but their legacy lives on.

## Author Biography

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John J. Lothian is a Chicago-based financial media executive and entrepreneur. He is the founder and publisher of *John Lothian News*, MarketsWiki, CryptoMarketsWiki, MarketsWiki Education and MarketsReformWiki. Lothian is also a Commodity Trading Advisor (CTA) and industry consultant. In addition, he is the Executive Chairman and CEO of John J. Lothian & Company, Inc.; is a principal with John J. Lothian Managed Futures, LLC, a National Futures Association member Commodity Trading Advisor; and serves on the U.S. CFTC Technology Advisory Committee. He was named to the latter committee in June of 2012.

He is a 1983 graduate of Purdue University in West Lafayette, Indiana, and holds a Bachelor of Science degree in General Management/Finance and a Bachelor of Arts in Mass Communications/Journalism.

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