Winning Commodity Traders May Be Made, Not Born

YOUR MONEY

MATTERS

BY STANLEY W. ANGRIST

Can the skills of successful commodity trading be learned? Or are they innate, some sort of sixth sense a lucky few are born with?

Richard Dennis, the legendary Chicago commodity trader, who turned a grubstake of $400 into an estimated $200 million or so in 18 years, has no doubt. Following an experiment with a group of would-be traders recruited from around the country, he’s convinced the secrets of commodity trading can be learned.

Over the past 4 1/2 years, a group of 14 commodity traders he taught earned an average annual compound rate of return of 80%. In contrast, about 70% of all non-professional commodity traders lose money on a yearly basis.

“Trading was more teachable than I imagined,” he says. “In a strange sort of way, it was almost humbling.”

Mr. Dennis says he had debated the learning vs. innate-ability question with some of his associates for years. While they argued that his skills are “ineffable, mystical, subjective or intuitive,” he says, his own answer was far simpler. The 40-year-old Mr. Dennis attributes his success to several trading methods he developed and, perhaps more important, the discipline to follow those methods.

To prove his point, Mr. Dennis decided to run a real-life experiment. In late 1983 and again in 1984, he placed ads in The Wall Street Journal, Barron’s and the New York Times seeking people who wanted to be trained as traders. The job required that they move to Chicago, where they would receive a small salary and a percentage of any profits while Mr. Dennis taught them his methods.

About 1000 applicants answered each ad. He selected 80 people to come to Chicago for interviews. From these, he chose 13 for the program in 1984 and 10 in 1985. During the four years of the program three people were dropped. Of the remaining 20, 16 are known to be trading public funds, three are believed to be trading for themselves, and one has gone into another field.

The students were called the “turtles”. (Mr. Dennis, who says he had just returned from Asia when he started the program, explains that he described it to someone by saying, “We are going to grow traders just like they grow turtles in Singapore.”)

Mr. Dennis provided classroom training for two weeks, teaching the fundamentals of commodity trading and the principles behind his methods of trading. In general, Mr. Dennis is known as a trend-following trader, that is, one who determines that a market is moving up or down and then takes an appropriate position to profit from that movement. When classroom work ended he gave each student $1 million in capital to trade.

In choosing participants for the program, Mr. Dennis says he was biased toward people with mathematical and game-playing aptitudes....

Russell Sands, 34, another turtle, recently formed a partnership with Mr. Parker to trade commodities for others. He told Mr. Dennis that the riskiest thing he ever did was quit a job on Wall Street to move to Las Vegas to play backgammon and blackjack professionally. He won a world championship in backgammon in 1980.