GH Trader's LLC
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July, 2008

research note

When All Else Fails Blame the Speculators

History is replete with society attacking traders and speculators. This paper takes a look at that history.

History is full of cycles. I enjoy studying cycles because they lead to predictability and predictability is a trader's friend. If we are to believe the news stories, the speculators and traders are destroying the world. I wondered if there was a cycle for society backlash against the trading industry? Indeed there is a cycle. When the economy turns down, society lashes out against the financial industry in the form of sticking a 'Scarlet A' on traders/speculators.

In this research note I set my sights on certain economic panics in the market. Specifically, the big panics like 1929, 1893, 1857, etc. I looked at articles preceding, during, and after the crashes from the Dataquest database, via the Elmhurst Public Library (where I live). The dbase allows access to the Chicago Tribune historical dbase, 1860-2008. I also utilized Google's new search-engine dbase that places events for search terms in chronological order.

I begin with the 'crash' of 1929.

In Chicago, the headline was **"Wheat declines on the threat of legal changes"**[1]. In article that followed, Senator Arthur Capper of Kansas wanted to limit speculators because of the volatility in the wheat markets. Messer Capper said the trading in the Chicago Board of Trader (CBOT) was an "economic crime". He wanted "legislation against the volume of trading". He and others were against the 'day traders' who didn't carry positions. The article went on to state that it was better that you held a position and didn't trade in an out of the market. However, they forgot the other part of the equation, *liquidity*. The golden rule in trading is *trade where there is liquidity*, period. More on liquidity later.

In France, the headline was **"Police curb speculators in Franc in France"**. [2] "With the franc still sinking, the minister of justice today ordered extreme measures taken to squash speculators."

In Russia, **"Grain Hoarding Brings Produce Crisis in Russia: Official Speculators to Be Arrested."** [3]

Back in Chicago, the headline was **"Order Inquiry On Disparity in Wheat Prices"**[4]. This article states that the speculators are 'bent on depressing incoming prices". Take note that speculators are taken to task because they are said to be 'depressing' prices. That's the opposite of today's backlash, in the grain market.

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1 Chicago Tribune, 02/26/1926, p10
2 ibid, 04/15/1926, p5
3 ibid, 09/02/1929, p5
4 ibid, 09/12/1929, p10

“**EDITORS THINK SPECULATORS HAD IT COMING**” [5] That headline was published on *October 30th, 1929*. Hindsight is 20/20 in trading. We all know it’s easy to look in the rearview mirror to explain recent happenings but very difficult to look out the front window to predict.

In Italy, “**MUSSOLINI URGES DEATH PENALTY FOR SPECULATORS;** Rages at Those Who Cause Crises.” [6]

In Belgium, **“Belgian Says Speculators Depress World Wheat Price”** [7]

Back in America, Representative A.J. Sabath, a democrat from Illinois, ‘assailed Wall street speculators who sell ‘short’ as responsible for many of the evils of stock exchange operations. He then introduced a bill that would tax short sellers. But, not just in the stock market, he wanted to tax “grain, wheat, cotton, or all commodities equal to 5 percent of the amount of the sale”. However, he didn’t stop there. He wanted to introduce another bill that would make it a crime “punishable by imprisonment”, to sell short. He wasn’t a *one-off* either. Representative Brand, of Georgia, introduced a bill to make it a felony to speculate also. [8]

Let us duly note the date of those previous headlines. It was, 02/10/1930. That date also marks the government’s creation of the *Farm Board’s Grain Stabilization Corporation*. Their purpose was to buy grain (mostly wheat) on the Chicago Board of Trade’s futures market. That’s because the speculators were being accused of selling too much. [9]

Remember, today (2008), speculators are accused of buying too much. Further reading of the article from 02/10/1930, finds that maybe it wasn’t the speculators, it might be the Russians. A Senate investigation, soon after found no one at fault.

The result of the Grain Stabilization Corporation can be seen in the following headline:

“**WHEAT DIVES 8 CENTS; LOWEST IN 16 YEARS**; Board Pays 10-16c Over Market.” [10]

The following headline is very confusing. It lauds the opening of a new futures market a mere week after that last headline above, Hog futures were given the go ahead to begin trading on March 3rd, 1930. [11] The headline was, **“Start Trading in Hog Futures for First Time in History; NEW FACILITIES SEEN INSURANCE FOR PRODUCER** Gives Privilege of Lessening Risks”. [12] [my emphasis]

The implication is very confusing. Suddenly the trader is a good guy, an insurer of sorts. “*Gives privilege of lessening risk*”. Just a week earlier the paper said traders were the scorn of society.

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[5] ibid, 10/30/1929, p2
[6] ibid, 10/02/1930, p3
[7] ibid, 12/10/1930, p23
[8] ibid, 02/10/1930 p30; 02/01/1930, p21
[9] The Financial History of the United State, By Jerry W./ Markham p217, 218
[10] Chicago Daily Tribune 02/25/1930, p23
[11] ibid, 02/27/1930, p23
[12] Ibid, 03/02/1930, p10

Then the government got stuck when they found themselves owners of 150 million bushels of wheat. **"SPECULATORS OF GRAIN TRADE SEE BLACK OUTLOOK"; Government Holds, Sells All Buyers Want.** [13]

There weren't any buyers because government interference in a free market made it a rigged game. There was no *liquidity*.

What about the mortgage bond-market, in the early 30s? President Hoover had a meeting with four leading bankers, in late August and told them he'd have 'no more of the selling of mortgage bonds' (shorting the bonds) in this down-market. He said that the 'speculators where taking advantage of the current depression to pound down prices of mortgage bonds'.[14] The President wanted the bankers to refuse credit to these speculators. Again, it's rigging the game. Similar to today's [2008] SEC interference in the financial stocks, issuing a ban on naked-short selling. The seller's of those stocks will dry up and the stocks will rally, artificially inflating their prices.

H.H. Bartelle wrote in to the Tribune, at the end of 1931, highlighting exactly why the future markets were needed. He lauded how easy it *was* for a farmer to hedge, in the markets, before the government interference. Most farmers were sitting on their corn (and other grains) at the end of 1931 waiting for the government to come in and buy grain (bail them out).[15] However, prices weren't going up because trading in the grains had become a rigged game and no one wanted to play anymore. Who suffered? The farmer & the grain operators. [16]

Let's go back in time and see if history repeats itself? How about the crash of 1893? That was the first crash labeled as a *depression*.

The first article I found didn't call the speculators evil, they just called them embezzlers, as you can see in this headline: "**EMBEZZLEMENTS OF THE YEAR**." [17] The article was looking back on the previous year, 1891, and recounting the shenanigans of the speculators.

Moving on, in January of 1892, Senator Washburn of Minnesota was quoted as saying he believed that wheat would be worth 20 cents a bushel more if it weren't for the speculators in Chicago. The writer of the article states "Apparently the Senator fails to take cognizance of the fact that what a man sells in that way he must buy back…" The headline for the article was "**Gambling in Wheat**." [18]

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[13] ibid, 05/18/1930, p24
[14] ibid, 08/29/1931, p15
[15] ibid, 11/22/1931, p12
[16] Cass City Chronicle, 01/22/1931, p5
[17] Chicago Tribune. 01/01/1892, p4
[18] ibid, 01/05/1892, p4

"**The 'Bear' Grain Gamblers"**, screams this 1892 headline. The first paragraph beats-up speculators in general for a number of reasons. One being that they sell 'mythical' wheat for the 'sole purpose of breaking prices' to 'buy them back on the decline'. [19]

The next article is headlined, "**Bearing the Market**". Members of the CBOT are taken to task for selling wheat. They used a particular Thursday as an example, stating "The Chicago bear ring has finally succeeded in creating panic throughout the world." However, further down the article it states, "Of course the bear must be conceded the same right to operate that is accorded the bull. It would not be a market in the modern sense of the term if all on one side, like a jug handle. The chances are that speculative buyers would disappear if short sellers were excluded…"[20] Do ya think?

In February, of 1892, Senator Washburn held hearings in Washington, DC, on proposed legislation to stop the 'short-sellers' (the Anti-Option Bill). Many different institutions showed up to defend their interests, like, the Cotton exchange, the CBOT, the chamber of commerce for NY and St. Louis, plus the Farmers Alliance and labor organizations. The Senator said he was going to 'press with all his vigor' to get the bill through 'so as to stop imaginary wheat traders'. Quote: "These Chicago speculators control the price of wheat. *The Chicago speculators control the market not only of Chicago and Minneapolis but New York and Liverpool and in fact the whole world*." [21] [my emphasis]

The headlines on page 1, a few days later, stated that it wasn't the Chicago traders; it was Rockefeller and the like:

"IS WHEAT CORNERED; There Men Are Said to Control the World's Markets. STANDARD OIL IS IN IT. Rockefeller, Mackay, and North the Alleged Manipulators. THE ARMOURS THE BROKERS. A Short Interest in the Country of Millions of Bushels. THE PUBLIC WARNED TO STAY OUT. Attitude of the Armours. Creation of a Big Clique. Following Up Their Charities. Probably 80,000,000 Bushels "Sold" in This Market. Tremendous "Short" Interest in America. Good Time to Stay Out.**"**[22]

So, who was to blame? Like the modern day story, there was a lot going on at the time. There were bucket–shops, 'the trusts', the anti-option bill kept popping up threatening to tax speculators, the silver debate raged, manipulation in sugar by senators, railroads had peaked and were consolidating at the cost of massive job losses. Furthermore, the American Bankers Association had released this report to its members:

> **"We are authorizing our loan officers from the Western States to loan on properties, monies repayable by September 1st, 1894. No fatal date is to exceed this date.**

[19] Ibid, 01/16/1892, p4
[20] Ibid, 01/20/1892, p4
[21] ibid, 02/02/1892, p10
[22] Ibid, 02/18/1892, p1

"On September 1st, 1894, we shall categorically refuse all loan renewals. On that day, we shall demand the repayment of our money, under penalty of foreclosure on collaterals.

"The mortgaged properties will become ours. (Money will have become scarce beforehand, and the repayments will have become generally impossible.) We'll thus be able to acquire, at a price agreeable to us, two-thirds of the farms west of the Mississippi and thousands more east of this great river.

"We'll even be able to possess three quarters of the western farms as well as all the money in the country. The farmers will then become land tenants only, just like in England." [23]

That memo couldn't have helped (tongue-firmly-in-cheek). *That memo was the most likely cause of the 1893 crash*, and the problem in the wheat market etal, was normal cyclical volatility. Not the traders.

The banks did stop lending and they did it before 09/01/1894. Here's just a few of the headlines:

"HOLDING THEIR CASH.; NEW YORK BANKS NOT LENDING MONEY FREELY. As a Result Their Reserve Is Largely Increasing" [24]

"**MONEY STILL SCARCE.; COMBINED LACK OF CREDIT AND CASH KEEPS TRADE DULL".** [25]

"**Banks Refused to Advance Money on the Collateral Proposed**." [26]
"**NEW YORK TO CUT OFF SHIPMENTS.; Stoppage of the Currency Supply Likely to Embarrass Out of Town Banks**."[27]

In the Minnesota court-system, it was ruled that there was collusion between some railroads, grain operators, and a few others, but not the traders. [28]

However, the headlines that ran in 1894, when the full rage of the stock collapse was being felt, blamed the speculator, not the banker. "**Gamble on the Tape**", was the headline for the first paper of the year, in 1894. The article told how speculators win at the expense of the women and children in America. [29] They didn't say anything about the

[23] http://www.michaeljournal.org/bankphilo.htm ; http://query.nytimes.com/gst/abstract.html?res=9400E5DA143FE633A25752C3A9639C946296D6CF ; http://www.xat.org/xat/usury.html
[24] Chicago Tribune, 06/04//1893, p15
[25] ibid 06/24/1893, p10
[26] ibid 08/02/1893, p1
[27] ibid 08/02/1893, p5
[28] ibid 03/12/1892, p4
[29] ibid 01/01/1894, p10

banks, in America, exporting their gold out of the country or calling in loans; just that money was tight.

The depression was terrible. It lasted over 4 years. And, people were sick of it. They'd endured massive down-turns in the economy consistently in the 1800s; 1811, 1819, 1837, 1857, 1873, and 1893. Not to mention the Civil War. It's so easy to blame the speculators. However, the causes of the crashes of the 1800s have all been found. Not once was the professional trader (speculator in old-world terms) found to be the ultimate cause.

But, it was easy to blame the trader. Much easier than the politician, the banker, the 'Trusts', etc. Those people were untouchable and not accessible. The trader was accessible.

Let's go back in time again to St. Paul Minnesota, February 8th, 1860. The article was about the state legislature not able to pass a bill on railroad speculation.

"What a Pandora's Box full of evils the Railroad grant has been to us! Legislatures have been corrupted, the Press subsided, and a quack currency, with the final 'busting' up of the whole scheme, entailed on us. A special committee of the two Houses are now investigating the acts of the Summer session of 1857, which distributed Land Grants, and the doings of the last session, which passed the same act, as it is supposed that bribery and corruption secured the passage of both these acts. Ever since the Grant was made to the Minnesota, gang of railroad speculators, familiarly known as the "forty thieves" of Wisconsin, have been prowling around our Legislative Halls and Courts…"[30]

Further down the article they started a new tirade against the real estate speculator. In the end, they offered no evidence, just innuendo.

There was a big issue, in 1860, concerning grain inspection. Remember, the Chicago Board of Trade (CBOT) was founded in 1848. Therefore, trading, storing, inspecting, and transporting grains were a new game. The canals were vying for business as were the railroads. We'd just come off a crash, in 1857, and civil unrest was around the corner. Taking these facts, we can look at how the speculator was treated back in 1860 with the central issue of the next article being *grain inspection*.

The article was posted in the paper on May 1st, 1860. The word "speculator" is pulled out and used as a weapon right in the beginning of the article.

"But like many other well conceived projects, it at once fell a prey to *speculation*."
[my emphasis]

[30] Chicago Press and Tribune, 02/15/1860, p0_2

Read further and the word is used 3 more times as a weapon. Still further and you find out that the guy who wrote the article was mad because *his grain* was rejected.[31]

The 1860-era wasn't an era when the newspaper received a lot of letters and had an '*opinion from the street'* section. They were moving these words by telegraph; therefore, the writer was a columnist. And, he or she left it unsigned.

Further reading into more articles in the 1860s show the same thing; speculators are bad. For instance, *The Homestead Bill*s were all the rage in Congress and the Country, in June of 1860. The writer of this article damned the speculators and the free market. He wanted the government to give the land away for free to the settlers.[32] I'm not debating the Homestead Bill's merits; I'm simply showing how the word speculator (trader) was used as a weapon throughout history because it's so easy to attack the speculator.

A speculator provides liquidity and assumes risk. They have done so in many different forms in many different assets over the course of history.

Lack of liquidity is the biggest risk an economic society faces. There's no liquidity in Citibank's 1.1 trillion in *off-the-book*-assets. That's exactly why it's *off the books*. Dark-Pools have no liquidity and that's precisely why the holders of such toxic waste are trying to create an exchange for them. If you can't find someone to act as the trader/speculator, you have no market.

If we can't learn lessons from history, what exactly can we learn from?

Finally, I leave you with one last quote from a Mr. William Woodwall who published a sermon in **1609** attacking "the love of luxury among the rich" and complaining of "the hardship caused to the poor by the activities of **speculators** in corn". [33]

Thank you,

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Disclaimer:

[31] Chicago Press and Tribune, 05/01/1860, p0_4
[32] Chicago Press and Tribune, 06/11/1860, p0_2
[33] https://www.british-history.ac.uk/report.aspx?compid=19064