

**PART ONE**

# **Should You Speculate?**

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# Guidelines for Commodity Speculation

**D**uring the first day of class, a student of mine said he was confused by the array of financial investments available to him. He knew that a Treasury bill had a minimum investment of \$1,000 and would yield him approximately 3 percent, whereas certificates of deposit, bankers acceptances, and commercial paper would yield somewhat more, reflecting their high risk. His question to me was this: “If I can get 3 percent by investing in a government obligation, why should I concern myself with other investments?”

“There’s a simple reason—because the inflation rate is 5 percent,” I replied.

We then got into a discussion of equities—common stocks—and we both agreed that the autos, airlines, public utilities, farm equipment manufacturers, and domestic steel manufacturers were slumping badly and that this was a reflection of lagging productivity and increased energy costs in our economy in general. If productivity did not increase and oil prices decline, equities would continue to be unattractive.

Were there other investment media? The answer is yes, the commodities markets.

This text is designed to outline the operation of those commodities markets and to provide a sensible approach to investing in them. Organizationally, the text will deal with the mechanics of futures trading in commodities and, building on this base, guide the careful investor to potential investment opportunities.

