

Interview with Charles P. Carey

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Interviewer: Mark R. DePue

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DePue: Today is Thursday, April 8, 2010. My name is Mark DePue. I'm the Director of Oral History at the Abraham Lincoln Presidential Library. I've got to say I'm excited today to have the opportunity to talk to Charlie Carey. Good morning, Charlie.

Carey: Good morning.

DePue: I guess we should say good afternoon. It is after lunch here.

Carey: Yeah, but they won't know. (both laugh)

DePue: We're in your office at the Chicago Board of Trade, actually, CME Group is what we should say.

Carey: Yes.

DePue: You are the former President of the Chicago Board of Trade and your title now, Mr. Carey?

Carey: I was former Chairman of the Chicago Board of Trade and am currently Vice Chairman of the CME Group.

DePue: Okay. What we want to do is to go through your life. Your father and grandfather, I believe, both were in the business?

Carey: That's right. Yeah.

DePue: In the process of talking about three generations, we'll learn a lot about the history of the Board of Trade and as it transitions into the CME Group. [The CME Group was formed in 2007 by a merger of the Chicago Board of Trade and the Chicago Mercantile Exchange.] So, let's start with when and where you were born.

Carey: I was born in Chicago, actually Evergreen Park, in 1953, south side, south suburbs.

DePue: Okay. Tell me about how the family got into the business.

Carey: Well, I don't know exactly. I know that my grandfather came down here after attending De La Salle High School for three years and that was a businessmen's school. He found a position here at Chicago Board of Trade and he took that position into becoming a member some years later and Chairman of the Chicago Board of Trade and President in the 1930s. So, yeah, he came here in 1903 and I guess that was my good fortune.

DePue: Your grandfather's name?

Carey: Peter B. Carey.

DePue: Well, then, who is Frank Carey?

Carey: I don't know.

DePue: He's not related?

Carey: He stole our last name, though.

DePue: I mention that because he was Chairman.

Carey: His picture's on the wall.

DePue: Chairman in the 1920s?

Carey: I think it was around 1920, yes. Something like that, yeah.

DePue: Okay. Tell me about the Board of Trade, why it existed back in the 1920s and '30s when your family first got started into the business.

Carey: Well, why don't we go to 1848?

DePue: Okay.

Carey: What happened was, they were building canals and transportation and there was a big commodity trade developing between Chicago, kind of a western

outpost where there was rich farm land, and back east where the cities were more heavily populated, where there was a lot of customers for the grain products and the meat products that were being produced out here. So, at a certain point, eighty-three businessmen got together and they created the Chicago Board of Trade—which was much more like a chamber of commerce at the time—really an authority to create rules for trading grain so that you could come up with standards, and an arbitration methodology so it would improve the trading of grain. It would drop capital to build warehouses and the kind of facilities that were necessary to store grain and move grain.

DePue: I want you to put yourself in the position of a farmer. Why would it be important for the farmers back then—and I would think even today—that there is such an institution like the Chicago Board of Trade? What role are you actually playing for them?

Carey: Well, we're actually creating a price that they can accept or reject. They grow their products; in the 1840s it was wheat and oats. They'd bring these products to Chicago to find buyers, and that's your cash market, you know: sellers finding buyers. So, they had to sell the products somewhere. This was the best place. They'd come by wagon. They came by whatever means they could to haul their grain to market and find the buyers. There was a group of eighty-three merchants that got together that were the buyers of this grain, that would merchandise it, and move it to the East Coast for them.

DePue: Would it be fair to say that if all of those farmers harvest their crop and then hit Chicago in late November, that it wouldn't necessarily work well for them?

Carey: That's true. And in the early days there was a story about the farmers being so angry at the price that rather than sell their wheat in the market here in Chicago, they dumped all their wheat in the Chicago River and went home because the price was so low. That really led to the development of the market share. What happened was, prior to futures markets, the cash market would be low at harvest time and then it would be much higher when you were at the tail-end prior to another harvest. So, you had volatility in prices. The farmers really needed a mechanism where they could smooth out some of those price swings so that they could get a better price for their product.

DePue: You mentioned a word here that I want you to describe for us, to define, and as we encounter these things, we'll take the opportunity to flesh it out a little bit.

Carey: Futures contract, right. It's an agreement. It's a contract between two parties to deliver grain and to accept grain at a price at a future time. The contract is standardized, people understand the terms, so that you have a date, you have a price, you have a quality, and that's what's deliverable. And it worked very well in commodities.

DePue: Is that something that started right at the very beginning of the Board of Trade?

Carey: No. It didn't start for some years. I think that the first futures contract came along sometime in the mid-1850s after there had been the organization of the Chicago Board of Trade in 1848.

DePue: Okay, so it wasn't too far afterwards.

Carey: No. It wasn't too far afterwards. No, you're correct.

DePue: And then this is the mechanism the farmer can enter into a futures contract and get some price down the road in the future? I'm trying to describe it myself to see if I understand it. And that way he can kind of smooth over the peaks and the valleys of the price?

Carey: That's right. You have that natural pressure at harvest time where there's too much [produce] around and not enough buyers and then suddenly, eight or ten months later, there's not enough supply around. There's too many buyers and not enough sellers. So what do they do? They incentivized the building of storage. They incentivized transportation to take it to different markets, and by creating a futures contract, somebody could look at the price of a product in the harvest, they could look at it mid-year and towards the end of the old crop [year], prior to the new crop being brought to the marketplace. So, by creating that mechanism, it took some of the swings out of the marketplace and it gave people a better tool for planning and for transferring risk, for managing risk. So, as early as the 1850s, a futures contract was a tool to manage price risk for the farmers and for the buyers, the end users, the consumers.

DePue: You mentioned a couple other things in there, the importance of building the storage facilities.

Carey: That's right. And that had to be incentivized by a profit. So what happens is, we designed contracts that had carrying charges so the warehousemen would be paid for their role in creating an orderly market by guaranteeing them some virtual payment over time that they were willing to accept, to store this grain until the buyers needed the grain.

DePue: Okay. Why Chicago? Why not St. Louis? Why not Duluth, that's on the Great Lakes? Why Chicago?

Carey: Well, I believe at the time, there were a lot of regional grain exchanges. Chicago was just one of them. You had them at St. Louis. You had them at Cincinnati, anywhere there was water transportation, and you had a lot of rich farm land in Illinois; you had the basis for a market, an exchange. So Chicago, for a lot of reasons, was able to create a dominant position in this area over time. Initially, I think they were probably evenly matched with

some of these other big growing cities. But the growth of the city, the embracing of these commercial standards by the members of the Chicago Board of Trade, and then the creation, the innovation of the futures contract: all of these things led to Chicago taking a larger role going forward versus some of these other regional exchanges. We still trade wheat in Minneapolis. We still trade wheat in Kansas City. There's an organized exchange. Chicago had started with wheat and oats, added corn, and then added soybeans in the 1930s.

DePue: Was the Chicago Board of Trade an innovator in coming up with this notion of the futures contract in the United States?

Carey: I believe they were. I believe they were the first to trade futures contracts.

DePue: Well, this is your opportunity, then, Charlie, to talk a little, or brag a little bit, about the founders. Were the founding fathers of Chicago and of the Board of Trade a little bit more visionary, perhaps?

Carey: Absolutely. I've been doing my homework. (DePue laughs) It's been a while. I think—what was there?—over twenty years, there were six mayors of the City of Chicago, businessmen, meat packers, grain merchandisers, and people who really developed this city; so they absolutely were visionaries. When I look at the names, I see the street names in the city of Chicago; a lot of them have streets named after them. They were the original founders of the Chicago Board of Trade. It was just one part of the economy of the city of Chicago, but it was an important part, and the growth of the Chicago Board of Trade and the growth of the city of Chicago kind of mirrored each other or went hand-in-hand.

DePue: When did the CME come into the equation?

Carey: Well that was fifty years later; it was originally the Butter and Egg Board. I think it was 1898 when they started trading contracts on butter and eggs.

DePue: Okay. Now, would I be correct to say, that over time the Board of Trade, its early history, was tied to grains, and that the Mercantile Exchange was tied to livestock and butter and eggs and those kinds of things?

Carey: Well, I think partially correct, yes, absolutely. For a long part of the history of the Chicago Board of Trade, our product mix was only grains. Livestock didn't come along for the Chicago Mercantile Exchange until the 1960s; so, yeah, that's quite a bit later. There were no livestock contracts and the Chicago Board of Trade and the Chicago Mercantile Exchange both competed with each other on offering a live cattle contract, which was kind of revolutionary at the time. There had been a frozen pork belly contract that really put the Chicago Mercantile Exchange on the map. Part of that, they traded onions, which were outlawed in 1956, which is another great story about the history of the commodity exchange.

DePue: Trading on onions was outlawed?

Carey: It was, it is, and it is today. It's still outlawed. What happened, there was a situation where the onions were brought to Chicago and there was such a surplus of onions that they were allowed to rot in the bags. The price went so low that the arbitrators were buying the futures contracts to throw the onions out to keep the bags because the bags were worth more (DePue chuckles) than the price of the futures contract. But in 1956, Congress outlawed trading of onions because of this situation. There was actually a good article about two or three years ago that they would like a futures contract back, because, contrary to what some people believe, these futures contracts do provide some stability to the actual underlying cash prices.

DePue: Well that's an interesting comment. You know, you've lived this your entire life. And you've lived through some years when the Board of Trade and CME Group and these kind of financial institutions have been taking a hit for a variety of reasons.

Carey: Uh huh.

DePue: And, so it's important from your perspective to hear the value of these institutions, I would think.

Carey: What I think the value is? Well, obviously, they were organized for a certain purpose. Their roots were all in agricultural commodities, but then there was a transformation as the world got smaller, communications got better, governments decided to allow currencies to float. Some very smart men here at the Chicago Board of Trade in the late 1960s, early 1970s came up with the concept of standardizing, creating a marketplace for securities options, which is now called the Chicago Board Options Exchange, but it was created with the capital of the members of the Chicago Board of Trade. So we saw kind of a revolution in trading that took place in the '60s and '70s and '80s. The world got smaller, the trade got bigger, and it became easier for people to access these markets. So, yeah, I kind of feel my history with the exchange is part of the golden era of growth in exchange trading derivatives.

DePue: We're going to go into a lot of that as we get further into the interview, but let's go back. You mentioned the '50s and '60s, and that's during the time when your father was on the Board, correct?

Carey: That's right. My Uncle Bernie was a member of the exchange. He joined the Chicago Board of Trade in 1940; then he was drafted, went into the service, flew twenty-five daylight bombing raids over Germany.

DePue: B-17?

Carey: Yeah, so I guess trading soybeans seemed kind of like small stuff compared to sitting in the back; actually he was a bombardier navigator, so, 17's and 24's [B-24's] he told me.

DePue: So that wasn't necessarily a good time for the Board of Trade, anyway, during the Second World War?

Carey: No. There was only one contract that was trading and it was rye. Every other contract was closed down because there were price controls due to the war effort, so the government had put restrictions on trading.

DePue: That had to be a very unusual time from working in this institution, I would think. What's your father's name?

Carey: Charles, Sr., and he was also a Charlie.

DePue: And when did he start on the Board?

Carey: He was eight years younger than my uncle and he joined the Chicago Board of Trade in 1948; it was somewhere right after the Marshall Plan. There was some big volatility in wheat prices and commodity prices due to the fact that we were rebuilding Europe after World War II; we were feeding the world from this nation until they were able to get their infrastructure back in place and their crops planted and providing food for their own people. So we witnessed some volatility and trading futures contracts in grain futures. Wheat, corn. Soy really hadn't caught on yet, even though it was traded. But it was an exciting time for those people that were part of the marketplace.

DePue: Well, I guess that was my question when you were talking about the volatility. Was that a good thing from the perspective of the trader and a bad thing from the perspective of the farmer? How did that work out?

Carey: Well, I think that volatility in itself can be both good and bad. I think it poses challenges to everybody involved. But a trader has more opportunity when there's volatility because there's more need for risk management. When there is no volatility and when prices are relatively stable, people aren't as drawn to these markets because they don't feel that they need to manage their risk as much as during a period of volatility where, when they do cash contracts and don't use or avail themselves of these tools, they could turn what looks like a winner into a loser. So, I think you can manage your volatility through using these contracts. If you don't, you're taking a much larger risk in your everyday business.

DePue: Can you explain to me the process of getting a seat on the Board of Trade when your father went through that shortly after the war.

Carey: Well, the process is, I think virtually the same as it was when my grandfather joined the exchange. There was a posted bid and people bought and sold

memberships like you'd buy property; the price of the membership was always related to the opportunity in the marketplace and what people thought they could do. When I first came down here in 1978, I heard stories from guys who were around in the '30s who said the Chicago Board of Trade membership traded in 1929 at almost \$65,000. By 1932, they were \$3,200. So, anybody who had purchased a membership—I think there were still some

people around that had bought those high-priced memberships—they were buying up. Because the Roaring '20s there was volatility and there were big trading markets. There was a lot going on. And the Board of Trade also traded stocks. We had a license to trade stocks here in the '20s. It wasn't as big as the New York Stock Exchange, but they had a stock license. That's what we used to start the Chicago Board Options Exchange, was that license.



Charlie Carey (seated, at center) with other Board of Trade members. (May be restricted. Patrons desiring to use this photograph should contact the ALPL Audio-Visual Curator.)

DePue: Was there a limited number of seats on the Board then?

Carey: Yeah. There's always been a limit. When prices get depressed, I think at one time there might have been fifteen hundred original memberships. I'm not certain about what time period it grew to that, from the eighty-three original businessmen. But over the years they built up the membership. Then there were periods of depressed prices for memberships and too much competition, too many members, where the exchange and its members voted to actually reduce the amount of memberships by either buying them in the open market or putting a bid in to buy memberships back so that they could, basically retire some of the seats.

DePue: If you purchased the seat, does that mean that only then can you go into the pit and do the actual trading?

Carey: Yes. When trading was not electronic, when it was purely pit trading, face-to-face trading, the members of the exchange had to own a membership to go in and transact, either for their own account or as an agent for a customer. To execute that contract in the pit, you had to be a member of the Chicago Board of Trade.

DePue: Does that mean the customers, a broker or somebody else, would actually purchase the seat on somebody's behalf and then they would have a contract, obviously, with that individual; is that how it worked?

Carey: Well, we had independent traders. We had independent floor brokers who would come down and hopefully they could execute enough business at a dollar twenty-five or a dollar fifty per contract to make a good living, and so they would offer their services to various customers, whether it be a commercial account, whether it be a retail account, a speculative account. But they would offer their services as floor brokers, independent brokers. On the New York Stock Exchange, they were called "Two Dollar Brokers" at one time. At the Chicago Board of Trade, we had a similar structure. We had independent traders, independent brokers. And we also had brokers that worked for companies, but they were only allowed to transact for those particular companies—that was kind of the make-up—but to be a principal, or an agent within the marketplace, you had to be a member of the Chicago Board of Trade.

DePue: It sounds like then your father purchased his seat outright?

Carey: I believe his seat was his father's, because his father was a member. He came to work here in 1903. I heard he became a member sometime around 1912 or 13, but then times weren't so good and he left the business. He came back in 1920 to become a member. Twelve years later he was Chairman of the Chicago Board of Trade. He passed away in 1943 and, I believe, the membership that I have today was my father's membership. It was purchased in 1920, sort of a family transfer.

DePue: Is that a typical experience, that it's passed from one generation to the next?

Carey: There was some of that. I think it was more typical of people my age and older. We just lost a member, a gentleman by the name Gordie Barrow; his son wrote me a nice note. Gordie was more of a contemporary of my father, but his father joined the exchange just about the same time that my grandfather did, and their careers followed similar timelines and similar paths. So they were part of the World War I markets, the first bit of regulation that Herbert Hoover wrote in 1922, the 1930s, and the creation of the Commodity Exchange Authority. All these things took place over that timeline and there was a parallel between his family and my family. And so, yeah, people did get memberships that way. But then the business got bigger and they offered

more types of memberships for sale; people had to buy them as the business grew.

DePue: Even when in cases where it does pass from one generation to the next, do you still have to actually have the cash outlay for the purchase of the seat?

Carey: No. It's a family transfer. To operate within the exchange, all you have to do is, you have to put up margin money at a financial firm so that your trades are



Carey holds a portrait of former CBOT President Warren Lebeck.

guaranteed by somebody.

DePue: I hope later on we're going to have the opportunity to do a little filming on the floor. I confess that I'm fascinated by watching what goes on in the pit and the open outcry, and the whole procedure what it means to be a trader. I've got all kinds of thoughts going through my mind, but one of them is, this is a young man's game?

Carey: Oh, absolutely. Particularly when I came down here, it is. I'm no longer a young man—at one time I was—but coming down here and being able to stand in the corn pit or the soybean pit, where perhaps your father had worked or your grandfather had worked, it really kind of gave you goosebumps to be involved in it. Then you get beyond that. But this history and the fact that there were so many second- and third-generation traders is something that was not lost on guys like myself, the fact that we were able to stand here and do these things that were so hard to understand when you're growing up. I mean, it's a difficult business, initially, as I think you'll attest to, to understand. What the heck are those guys doing in there? You know, and then, you're always learning, and even when the first time I stepped in there, I didn't know who was doing what and I had to watch and observe and start to see tendencies and people, but that's when there was no electronic trading. That's when everything was done face-to-face. So you watched body language and you watched people and you knew tendencies. It was like being a ball player or something like that. It was a little bit like playing a sport. So it was really exciting and it was really something rewarding to be able to participate in this business.

DePue: Can you explain, in laymen's terms to somebody like myself who really doesn't understand this at all, what is actually happening, what was happening when the open outcry pit was really at its full glory?

Carey: Oh, certainly. I mean, it was price discovery and risk transfer at its best. People were putting in orders, whether you stood in the corn pit or whether

you stood in the wheat pit or the soybean pit. You had brokers who were representing customers come in and they would make a market.

DePue: Make a market means...?

Carey: Make a market means: what price is something worth? That's what the marketplace is always trying to determine. What is the value of this thing that you want to buy or sell? And by putting it in a centralized place, everybody can witness what price something is trading at and then they can vote up or down, is this a good price or a bad price. If you think it's an attractive price, as a consumer, then you buy. If you think it's an attractive price as a producer, then you sell. People that speculate or trade in the marketplace are simply trying to find out what is the value of an underlying commodity, and that's what the buyers and sellers do every day. So, in the morning, from seven o'clock till nine-thirty, people would look at the news, they would determine whether they wanted to participate in the market. Order fillers would accumulate what they call decks, which would be buying orders and selling orders at prices, and then there were people that didn't care about the prices and wanted to participate in the market, whatever the price was that day, because they may have sold wheat to Egypt or they might have sold wheat to Russia, or they might have bought corn from the farmer. So, they use this futures contract to offset the risk that they have in the cash market. So all these people would come together and they would start to banter about and start to give indications of where they were going to open the market. This was a primary market. They weren't looking at somebody else. They had to walk in and they had to open a market, meaning, they had to match buyers and sellers in this arena. And so everybody got to compete. If somebody said, "You're paying too high. I'll offer it lower." Then they had to respect that and go to the best price for their customer. If somebody said, "You're selling too low. I'm going to pay higher," then they'd have to respect it. But it was all this energy and these people and this interaction that took place to find the initial value of a contract, then the trading would go out until one fifteen and people would buy and sell at different prices throughout the day to try to determine: what is the value of a bushel of corn; what is the value of a bushel of wheat. You don't know. Somebody thinks it's worth something, but it's the actual buyers and sellers who put their money in the market, they determine what something's worth. So that's what's going on there.

DePue: The traders then are either representing a buyer or representing a trader?

Carey: Or their own account. They might be trading for their own account, saying, "I'm going to stand here and trade for myself because I think I know more than the guy over there who wants to sell it here or wants to buy it here." So what they do, is they provide liquidity. So what happens is, if somebody wants to come in and buy fifty thousand bushels of corn and there were no customers that were willing to offer it at that price during the day, the brokers

would go to the local market makers and buy their offers because they were there. They were there making a market all day long. Some of them working on a minimum tick size differential. [In financial markets, tick size refers to the minimum differential by which a price can move up or down.] I might pay two fifty-five a bushel for corn, but I'll sell you corn at two fifty-five and a quarter. That's a narrow differential. That's a quarter cent differential and people were working on those types of margins while other people were balancing off against the cash requirements or selling production that they just purchased. Maybe they bought some corn on the Illinois River. They decided to use the futures markets to offset this 25,000 bushels that they just bought because the 25,000 bushels go down twenty cents. They're going to be out \$5,000 and they don't want to be out \$5,000 because that's more than they're going to make in redelivering the cash corn to the river to an exporter, so they use these contracts to offset their risk.

DePue: Somebody from Vegas might say, "Well, this is just another way, another form of gambling."

Carey: Les Rosenthal answered that the best in *My Word is My Bond* when he said, "Gambling is men wagering on games that they've created. Speculation is really done on natural events where people are willing to step in and absorb risk that other people don't want to take."

DePue: You've given us two words here that I think we want to take a step back and have you explain. The first one was liquidity.

Carey: I probably could describe it best by what's not liquidity. If you look at the real estate market in the last two years, it was not liquidity. You couldn't buy or sell anything. There were very large spreads. There was no liquidity because there was such a dynamic change. What's another market where there's a lack of it? There's other assets that don't have a ready market versus an asset like a commodity here that has a ready liquid market, with people willing to buy or sell in a given price, in a narrow range, so that other people can offset their risk. So liquidity is really the immediacy of being able to buy and sell several times in the same day, perhaps, a lot of assets you can't.

DePue: Would gold be an example of something that's liquid, because its value doesn't change over time that much?

Carey: Gold? Well, I would say that the value does change over time a lot, but I do believe that gold is liquid because the world is trading gold twenty-four hours a day. They might have people in India maybe trading gold through a certain exchange and other people in London are trading gold, but there's a price out there that the world can see and there are people who are buying and selling gold all day long. That is a liquid market.

DePue: Okay. If you have a commodity that is variable over time, has huge swings, does that mean it's less liquid than other assets?

Carey: Not necessarily. In most swings in the market, the liquidity depends on, could I buy or sell when I needed to sell when I wanted to sell it? That's liquidity. And if I can't, if they say, "No, come back tomorrow;" "Come back next week;" "We'll see you in a couple of months"; that's not liquid. But if I may not love the price but I can exit the market in a brief period of time, that's liquidity.

DePue: Okay. The other term you mentioned is the one that seems to have caught the public's attention in all the worst ways here lately and that's speculation and speculators.

Carey: Oh, yes, speculation and speculators. You know, they tend to get branded. They tend to get scapegoated. They're blamed for a lot of the ills. You can go back to the times in Greece when grain speculators were blamed for the high price of wheat, but the fact of the matter is that Greece was dependent on other countries for feeding their country, much [as] we're dependent on oil right now. We're dependent on other countries to run our automobiles and our industry. We don't produce enough oil here in the U.S. Greece didn't produce enough wheat to make bread for its people, so speculators were blamed. Speculators are a very important part of liquid markets because they take peoples' risk that other people don't want; sometimes they're successful, sometimes they're not successful. But that speculative capital that comes with the markets drives liquidity and allows other businesses to transfer their risk to these people so that they can go ahead and run their crushing plant or run their country elevator or run their miller, the millers that produce the wheat. It really allows them to serve the function that they're there for and not have to speculate or risk the price of the inputs or commodities that go into their business.

DePue: Would it be synonymous that a trader is also a speculator then?

Carey: Traders, yeah, a lot of it's dictated by time frame. A trader can buy and sell many, many times during the day. Speculators generally hold positions for a longer timeframe and more than a day, where they take a view of a market that they think is either under-priced or over-priced, and they will apply their capital to that market; whereas, a lot of the traders as we know them, will buy and sell all day long on that minimum tick size to turn a profit at the end of the day, and they're part of the liquidity equation, also.

DePue: I want to take you back to your youth, growing up in this family that had this long tradition in the Board of Trade. What was it like? How much did you understand what your father was doing everyday?

Carey: Very little. It was hard to understand, because people around me were blue collar. There was a lot of Chicago policemen.

DePue: What was the neighborhood again?

Carey: It was out on the south side, the Beverly Woods area. People were firemen and policemen and some lawyers and accountants, but it was not a particularly affluent area. So understanding what somebody did at the Chicago Board of Trade was kind of difficult. I remember the first time standing in the observation deck and looking down at all these men and wondering what they were doing standing around. Buying it. So you must buy it and then if it goes up you can sell it. Yeah, that's part of it, you know, so, its difficult. It's difficult to understand, especially for somebody who's going to school and other people that have jobs that you understand. So, no, I couldn't really understand exactly what was going on.

DePue: Did your dad make the effort to try to explain it to you?

Carey: If I had questions he would definitely take time to try to explain it, but it's a difficult concept. I mean, I was in college before I could understand what a short sale was.

DePue: Does that mean you weren't all that interested in it growing up?

Carey: I was more interested in football and other things. I was always interested in it, don't get me wrong. I always asked what the price of corn was and I still get teased by my friends that I went to high school with that I was the only guy who was talking about the price of corn or the price of wheat on the way home from school. They'd all look at me like I was crazy. So I always, truly, did have a strong interest, but there's a time and a place for everything. I didn't get too deep into it really until I was studying finance in college.

DePue: Tell me a little bit about your mother. Her name?

Carey: Patricia Callahan Carey. Her father was an orthopedic surgeon on the west side.

DePue: That's a lot of Irish background.

Carey: A lot of Irish, absolutely, yeah, yeah. Some German. My grandmother on my father's side last name was Angston; they came to Chicago sometime in the 1850s from Germany, barrel makers. Pete Carey's father was a blacksmith and he was right out here on the south side. If you look out that window, between Twelfth and Eighteenth was his area and he had a route he took care of. He was the blacksmith, he took care of the horseshoes and that was his business. Luckily for me, my grandfather didn't want to be in that business and he found the Chicago Board of Trade.

DePue: And a little bit more about your mother then? I would assume she was a housewife, because I bet your dad spent an awful lot of hours here.

Carey: He did, even though it was only open from 9:30 to 1:15; he did spend a lot of time down there. It was a different lifestyle then. It was very cyclical. It was a much smaller business in the 1950s and '60s. It didn't really start growing until the late '60s, early '70s: the Russian wheat deal, the opening of the Chicago Board of Options Exchange and, really, Bretton Woods and the currency trading at the Chicago Mercantile Exchange. Metals trading. Gold, it was illegal to trade gold from the 1930s until the 1970s.

DePue: You mention Bretton Woods. This was the agreement made after World War II, correct?

Carey: Yeah, but what they did was, in the early '70s they stopped pegging currencies to each other. In other words, they didn't fix it. They allowed the markets to flow freely, and that's what created the opportunity in the currency markets to trade currencies as a derivative like a futures contract on corn or wheat. You could suddenly trade foreign exchange the same way and, so, people wanted to buy the British pound and sell the U.S. dollar or buy the Canadian dollar. All these opportunities which didn't exist prior to that suddenly existed.



Charlie met with Mayor Richard M. Daley when the Mayor visited the Board of Trade.

DePue: So what you're really saying then is, when you were growing up, there wasn't as much going on in the trading world.

Carey: It's a small regional grain exchange, you know. I mean, it was a benchmark for the rest of the world because it was the Chicago Board of Trade and this was where they traded grain. But it was still a business that didn't have the volume, didn't have the participation. It was a great place, but it was about to get much larger on a scale.

DePue: Just about the time you arrived on the scene.

Carey: A little bit before me, but yes, it did, it really did start to grow.

DePue: When you were in high school, what were your thoughts for your personal future?

Carey: Well, not certain, and, you know, you didn't dwell on it a lot. Basically enjoyed high school.

DePue: Where'd you go to high school?

Carey: Well, I graduated from Oak Park-River Forest High School and then went on to Western Illinois University and studied business, finance. I thought about going into law. One of my uncles was a lawyer. My grandfather, as I said, on my mother's side was an orthopedic surgeon. He always wanted me to go to medical school, but I just didn't; I knew that that wasn't my calling. When the opportunity arose to come down to the Chicago Board of Trade, start trading and try to learn about markets and trading and try to become a successful trader, I took that opportunity. Fortunately for me, it was the right path.

DePue: So, let me get this and see if I understand this. In college then, you majored in business. Did you intend at that time to come back to the Board of Trade or [were you] just thinking in generic terms?

Carey: I wasn't certain. I wasn't certain. You know, I was like a lot of people in college who really don't know exactly what's going to happen, but you know, at least I gave myself a base in business. We studied stocks, but they didn't have anything about commodity trading. There was one class and it was restricted to ag majors. You could take a class about commodity trading, but you had to be an ag major and I wasn't an ag major or minor, so I didn't get to take it.

DePue: Are you suggesting then that even though you had this business degree it doesn't necessarily prepare you to come to a place like this and work?

Carey: Well, it definitely does not prepare you to come to a place like this to work.

DePue: So what does prepare you to come? I don't think you walk in out of the street and just begin trading.

Carey: No, no, you're correct. I mean, I think, an understanding of economics, somewhat basic economics is helpful. I think being exposed to the marketplace, being able to spend time with members that had been through various experiences, whether ten years, twenty years, thirty years, absorbing that information because [in] this centralized marketplace you had access to people like that, and I had access to people like because of my father having been here for thirty years and my uncle was chairman in the '60s but he was still an active member. So, I got to meet a lot of people. You absorb. You read. You absorb. You read everything you can read. You watch what's going on in the market. You try to understand what makes somebody a good trader, [or] not a good trader. It's really not something you can read a textbook about and become successful. Some people have zero appetite for risk, and you have to have some appetite for risk. So it really is an on-the-job learning experience, I would say.

DePue: What was the first job you had coming out of college?

Carey: Well, it was kind of an extension of a summer job. I was fortunate enough to work for Pat Nash, Nash Brothers Construction, in '73 and then again in '75, right when I was getting out of school. It was just, you know, make college expenses and make some money. Construction workers were making a pretty good buck back then. So I did that while I waited; I took the test to get into law school, and I also, then I discovered through word-of-mouth the Mid-America Commodity Exchange, but I worked construction. I worked other odd jobs. I worked nights in a bottling plant, while I'd come down and trade during the day, so I would have my mornings free to trade and then in the afternoon I'd go take a shift at a bottling plant so I could pay my bills and get around.

DePue: What was the Mid-America Exchange's specialty?

Carey: Well, prior to that it was called the Open Board of Trade. They had small contracts in grains, been around a long time. I think it started as Hub's Exchange in 1878 or something like that, but it was a place where you could come into the marketplace and it was not such a high access fee. Memberships were cheap. There wasn't as much opportunity, but you got to learn about markets from people that really were . . . If they could survive that and be successful, they could trade anywhere. And, really, it was a great, great training ground.

DePue: So you were trading there, but that's not the same institution as here, that's not a sub-institution of the Board of Trade?

Carey: It is now. It wasn't then. It was a completely separate exchange. Along about 1985, we took them over and brought them in as part of the Chicago Board of Trade, but they were an independent exchange up until 1985.

DePue: Were they here in Chicago?

Carey: Oh, yeah, yeah, they were. In fact, for me it was quite convenient. They were right next door in the Insurance Exchange Building. I can't remember, they were on the second or third floor. You'd walk in. It was very different from the Chicago Board of Trade because there was just one big pit and people would stand in a little section if they wanted to trade wheat or if they wanted to trade corn, or if you went over to this side you could trade hogs or cattle. They had many contracts and everything, and there was very little of what they called paper. There was very little customer business, so you were trading against other traders, so it was a challenging environment, but it was a great training ground. And Richard Dennis came out of that group, Tom Moulis, Robert Jenkins, a lot of the best traders that really were part of the growth here at the Board of Trade in the late '70s, early '80s came from there.

DePue: Let's see if this analogy would work then. This was the minor leagues and the Board of Trade is the big leagues?

Carey: Yeah. I think it was called that back then. Yeah. I think that's a pretty good analogy.

DePue: The scale of the operation: how much grain was being traded at the Mid-America Exchange?

Carey: Mid-America? Small fraction, but there was something they called a changer form. You'd have to pay an eighth or a cent and you probably have to pay the offer price, but you could buy all the contracts you wanted by going to the Chicago Board of Trade. You were a risk taker, you know, and a speculator and you were, and some people at the time traded both places because they could have a position there—it was two different exchanges—and a position here. Not too many people could trade that big, but some could, you know.

DePue: For a novice like myself watching what was going on at the Mid-America versus what's going on here at the Board of Trade, would we have noticed any difference, really?

Carey: Yeah, because one looked like it wasn't open and the other was a hub of activity. (both laugh) And so, yeah, yeah, definitely, it was a big difference.

DePue: I think your father passed away in 1977. How hard was that to deal with then? It was shortly after you graduated.

Carey: Yeah. It was tough. You know, he was my best friend and he was a great teacher; we got to spend a lot of time and really in those last two years, he taught me a lot about the business. And so it was a great experience for me. He was a great friend and that was a difficult time.

DePue: So he really took you under his wing when he knew you had come into the business, maybe not in the same place.

Carey: Uh huh, yeah.

DePue: He took an interest in teaching you the ropes?

Carey: Yeah, and he was a great teacher because he wasn't over-bearing and he didn't just talk about the winners. He really talked about the psychology of a trader as much as anything else, and that's really one of your greatest challenges going through the emotional ups and downs of being a trader. It's not a one-way street, and when you're paying your dues and learning about markets, you never really know if you're going to be a successful trader or not, or if you're going to have to leave this business and go do something else for a living, because it's not for everybody. People, you know, are not born traders. Some people think so, but it's not, you know. Otherwise there would have been a line around the block to get in here if it was that easy. It wasn't that easy. But it sure afforded you a lot of opportunity. And so he was there for me in that difficult, early period when I was learning how to trade.

DePue: What was he telling you about the psychology of the trader? Do you remember?

Carey: Discipline. Discipline. Take your losses. Beware of the obvious. Don't follow the crowd. Do your own thinking. Those were the kinds of things I got from him and they all paid off.

DePue: Maybe you'll disagree with this, but is there a personality type that seems to do better as a trader, and what would that be?

Carey: Well, I think you have to have a competitive spirit, but I think you have to have discipline, and I think your emotional make-up is very, very important, because some people can't take the stress. Some people don't manage their emotions well and will do the things that will lead you to, you know, disastrous performance; when things are tough is when you have to be your best. Anybody can be good when you're winning, but it's how you handle your losses and how you manage your money and how you discipline yourself not to get caught up in a trade emotionally, but to look at it objectively and say, "Well, here's where I was wrong. It's time to exit this," or "I'm not wrong," or "What parameters do I set on a trade, how much money do I risk and what level of price will I risk before I admit I'm right or wrong?" So it's really the ability to decline trades. In other words, don't get caught up chasing a crowd reaction. Back then there was one pit and there was a lot of noise and it would be real easy to get caught up in this emotion. Don't do it. Think for yourself. Look around. Keep your head up. All those things. So, if there's a type of personality, it's somebody who has a balanced emotional make-up and a strong self-discipline.

DePue: Good solid self-esteem?

Carey: Esteem will come over time. Yeah, you need some self-esteem, but too much is very dangerous.

DePue:I'm thinking: you walk in there and if you're used to having people compliment you all the time, that's not going to happen on the floor, is it?

Carey: No, no, you're not going to get that, and if they do it, it's false. So be very aware, you know, beware of all the compliments. It's a very cold business, it's a very black and white business. You're either a winner or a loser at the end of the day and you've spent your time trying to gauge the marketplace.

DePue: Type A personalities all?

Carey: I guess, yes. You know, I mean, not all, no, no. There were people that were successful not being Type A, and then there were Type A, and so you could find your level, more like being a golfer, you know. I'm an eighteen handicap, I'm a nine handicap. Well, I shot an eighty-five as an eighteen. I had a hell of a day. I made \$500 trading today and that was a hell of a day for

me. But you know what, the guy who's a nine, he wants to make \$2,500 because he believes that's how good he is. And so if he makes \$500 or loses, he didn't have an eight day. So, you could land in a zone, and really playing within your zone, that's the greatest analogy I could come up with is a golfer. Know your swing. Know yourself. Play within your game. You know, don't overdo it.

DePue: I saw something that suggested that size mattered, that physical bulk mattered.

Carey: Well, yeah, well, bulk. , I don't ...

DePue: Maybe intimidation mattered.

Carey: I don't know. I mean, look, I think size always mattered because I think you could... height is what mattered. Bulk was okay, but height really gave you an advantage of sight lines. It really became important when we created the bond pit and people were vying for space near the order floor providers because they had to be there or they couldn't participate. So the fact of the matter is, yeah, size and height were definitely a factor in some successful stories, but it wasn't the only driving factor.

DePue: Does that mean, though, that women had a disadvantage in the open outcry pits?

Carey: Well, yeah, probably. We didn't have a lot of women members. We had some that were successful, but not a lot of women members. It was, and it had always been, a man's game. Not that they weren't allowed in, but it was somewhat physical. It was mostly men. It may not have always been comfortable for them, but they were welcomed in. It took a special kind of a woman who would want to stand in a crowd like that and compete.

DePue: Let's go back then to what brought us into this subject in the first place, and that was what your dad was teaching you in those first couple of years. So again, how tough was it then when he passed away. Was that a surprise to the family?

Carey: Yeah, I think so, and he was only fifty-three, so, yeah, I mean, even though there were a lot of different medical complications, but, yeah, it was a little bit tough. But, you know, we were fortunate that our mother was a strong supporter and we were able to pursue the careers that we wanted to pursue down here.

DePue: Was there any talk that because of the stress of the job of being a trader all those years that contributed to his death so early?

Carey: Ah, yeah, I believe that. Yeah, sure.

DePue: Were you hearing that from your mother or any other relatives, that cautionary tale for you?

Carey: Well, sure. But my mother probably understood it more than anybody, and so she didn't have any problem with going down there. A lot of people had a lot of ideas about what it was like, but until you're actually standing in there doing it yourself, again, it comes down to personality, how you handle your risk, what, you know, how do you want to conduct your business and how do you want to conduct your personal life. There was a wide range of approaches. Some people ... To be quite honest with you, alcohol has always been an issue down here; it came hand-in-hand with the job. It was a three hour job with the rest of it free time, so, you know, alcohol was a challenge for a lot of the members. I think in the '70s and '80s there was a bit of a drug culture around here, fortunately below the surface, just like the whole country when people were trying cocaine and this and that. I think that, fortunately for me, I stayed away from a lot of those things. But you saw people getting involved and you could see it all through their behavior. You need your wits about you when you're standing in there in a crowd trying to survive making trades. You don't want to be dulled and you don't want to be distorted by some sort of a drug or hung over from alcohol. I like my drink, you know. I still do, but when you went to work the next day, you wanted a clear head and you wanted to be able to compete with the best.



Carey stands on trading floor as the CBOT.

DePue: Were you married at the time?

Carey: No, I didn't marry until 1985.

DePue: I think we're getting close to the end of this tape, so this might be a good place to break.

Carey: Take a break? Sure. How are we doing?

DePue: Oh, this is great, I think.

Carey: I don't know who would want to watch it (DePue laughs), but, anyway, I hope it's something that you

DePue: Okay, Charlie, we took a very quick break and we're back again. I think we had a logical point to break, because 1978 was an important year for you.

Carey: Yeah, sure was.

DePue: What happened in 1978?

Carey: Well, April 13, 1978, I joined the Chicago Board of Trade.

DePue: Tell me how that happened.

Carey: Well, my father passed away in December '77. He had a membership in his name and the family decided I should take what I was doing at the Mid-America and try to apply it at the Chicago Board of Trade. So, I went through the application process and became a member of the Chicago Board of Trade and his seat was transferred into my name.

DePue: This might be somewhat of an absurd question, because I know we established last time that the seat can go from one generation to the next, but what was a seat price going for at that time?

Carey: I believe it was \$140,000, which was all the money in the world, if you ask me. I was making \$6 an hour working construction. That was the last real job I had.

DePue: Tell me about the first day on the floor. What was that experience like?

Carey: It was challenging because I had been at the Mid-America Exchange where it was a secondary market and we would watch a tape roll by with prices on it, so we got used to reading a tape. Now, I had to change what I did from watching a flow of prices from the tape to watching people and people interact. And the space was much different, because I had to look at: the top step was trading one price, down in the middle they were trading a different contract, and off the side. So, it required an adjustment in my style and it was a difficult adjustment initially to go from watching the flows of prices on a tape to watching people do these things and then looking to the wall boards for soybean prices or wheat prices to see if they were affecting the prices in the corn pit.

DePue: One of the things that's confused me getting ready for this is realizing that, you know, there's, take corn as a commodity for example...

Carey: Sure.

DePue: ...that you're trading corn at the present price and then at a variety of different months in the future as well.

Carey: Uh huh.

DePue: Is that all happening in the same pit?

Carey: Yes, it was at that time. They were all pit traded. That was the only way we traded. They were traded open outcry. That was required by regulation. That

was our rules. And they would be assigned. Their lead month would be the top step. And their second month would either be down in the middle or off to the side.

DePue: What does that mean by lead month?

Carey: Lead month: most active, front month; we call it the front month or the lead month. It would have the most volume in open interest, and it could be the closest date to maturity. It could be, right now you'll be trading May corn because May is less than a month away. And then, as the open interest and volume declines and as it becomes a cash contract and only the commercials are trading it, you move a different month to the top step because it would be the most active contract in trade.

DePue: Let's use corn again as an example.

Carey: Sure.

DePue: When you're talking about futures trading, how many options did you have in that respect? Options might be the wrong word.

Carey: No, no, no. That's exactly what we called them was options, I mean, that's futures delivery months, so you'd start with a March contract. You'd have March, May, July, September and December. Those were the months in corn. Soybeans, you'd have to add an August and a January and and no December. So, you know, it was, those were the different options or delivery months that you'd trade and they'd all be in the same pit.

DePue: But that wasn't just for this particular calendar year? That would go on for the two more years?

Carey: Oh, yeah, and then there'd be red and then you'd have green. That means you might be two years out, all those different terminologies to identify what you were trying to bid or offer, what commodity and what month for delivery.

DePue: So is the rule is that you're not going to go farther than two months out in terms of your trading?

Carey: Oh, no, I mean, there's sometimes two years.

DePue: Take it to two years?

Carey: Yeah, two years, yeah, sometimes they'd go out two years to trade.

DePue: And generally in three month increments?

Carey: Roughly. Not always. I mean, obviously, you get, you know, March and May is two and July two and September, you know two and then you've got

October, November, you know, so the financials were more based on quarters. Grains were more based on harvest times and planting times.

DePue: Walk us through the rationale, then, for your typical farmer or, maybe a grain elevator operator, who wants to deal with corn futures for December of 2012, for example.

Carey: Okay. It will be unusual for that person to do it, but it might not be unusual for somebody who, maybe a foreign entity that has to have a certain amount of contracts because he's actually correlating the contracts that he's purchasing in 2012 to a requirement on the cash books. Maybe he's created a long-term contract with a buyer and he's got to be the seller, or vice versa, so it's really about meeting the timing needs of cash contracts and using the futures contract to mitigate the risk. That's why he'd be out there, because he may have commitments two years out that he's got to meet at that time and that may be the best tool for him to use.

DePue: He gets into that because he's afraid if he doesn't purchase now that the price would go up and then he'd be losing big time?

Carey: Or down, depending on which side of the market he was, but yes. The fact of the matter is, is it's hard to say what the price of corn is going to be worth in 2012. What's the federal government going to do about ethanol? What are they going to do about ethanol subsidies? What's the price of crude oil going to be? We saw a lot of these long-dated trades come into the marketplace after the energy policy of 2005 was approved and we started using twenty to thirty-five percent of our corn crop as energy.

DePue: So all the action that we see in the pits that the speculators are going through is to determine what the fair price is for what corn might be in December 2012?

Carey: That's what the market is there for, to determine a price and transfer the risk.

DePue: I pulled off some quotes from yesterday, got this from Agriculture On-Line. Cash yesterday for corn, three forty-five point four. I assume that's four-tenths.

Carey: Three forty-five and a half.

DePue: Okay.

Carey: Did it say where? Because there's generally a premium or discount depending on where you are to delivery point. Our contracts are based on the Illinois River and relate to the Gulf export market.

DePue: Okay. I don't see that here. Maybe I should hand it over to you and let you take a look at it.

- Carey: Sure. I'd be glad to. Let's see. This says Agriculture On-Line and, actually, that forty-five and a half sounds like a futures price, but let me take a look. Okay, cash, December, oh, yeah, cash forty-five and a half. It doesn't really say where they're quoting. May corn forty-six and a half. July corn fifty-eight. Okay, so you have a cash price. Where exactly it's coming from, I'm not certain. It could be on the river. It could be Chicago. Don't know. But, because cash varies quite a bit from location to location, but it's all tied to the futures. There's all a relationship there.
- DePue: What I'm seeing over time is that, as you go farther down the calendar, the price keeps going up incrementally by small amounts.
- Carey: But that's because you're paying people to store that grain, so when the nearby would trade at a discount because you're not going to pay for storage. But, if I bought corn now and held it until December of this year, I'd have to pay something like five cents a month per bushel to store it. So, that's why there's those differences. When there's ample grain around, trade at what we call full carry, meaning that the cost of insurance, the cost of storing is all built in to the differential between the May contract and the July contract. It's there.
- DePue: In that first moment, now you already had two years of trading in Mid-American Exchange, and you walk in here. Did you feel that you were really prepared to step into that pit?
- Carey: That's a tough question. Nobody's ever asked me that. Yeah, I did. I felt I was prepared.
- DePue: Was it the confidence of youth?
- Carey: Probably. Yes, most likely, but I felt that I understood markets and I thought that I would be just fine. It took me a little bit longer to adapt, but eventually, after spending time, you learn to trade in this environment and, so, it was a great experience. It was a little bit more difficult initially than I thought, but then things worked out.
- DePue: Who were you representing? Yourself that first day?
- Carey: Yeah, only myself. I was always a trader for myself.
- DePue: Did you walk away with a profit that first day?
- Carey: I don't think so. I think it was a little disappointing. I think it was kind of a difficult trade and the learning, the tuition wasn't free. So, but, I didn't make any monumental mistakes and I think that the fact that for two years I learned discipline that kept me from making any big mistakes.

DePue: And you're keeping your head above water financially for those first couple of years?

Carey: Oh yeah, yeah. It took me a while to get going, but by 1979, I think I'd coupled my pit trading experience with what I'd learned from my father and observing, talking to older traders, I was able to kind of implement a lot of these things into my strategy and the way that I traded and created my own style of trading.

DePue: Tell me a little bit about the building, because there's a history to this building, as well.

Carey: Oh yeah, yeah, well I think the site was initially purchased in 1885. The building before the building that we're sitting in here, actually suffered some damage when they built the Federal Reserve building across the street. They drove the pylons so deep that it kind of made the old Board of Trade building a little bit unsafe, and so they decided they were going to build a skyscraper. They built the tallest building in the city of Chicago and they started around 1927, 1928. They moved out of the old building and moved over to a garage on Clark Street, set up shop in that garage on Clark Street, tore down the old Board of Trade, and built this skyscraper that went, what, forty-three stories. It remained the tallest building in Chicago from 1930, when it opened up, until 1955 when the Prudential building opened up. So it was the tallest in the city and there's twenty-five years of pictures where you will see the goddess of grain sitting up there as the tallest thing in the City of Chicago.

DePue: When Chicago is known for its architecture, always has been, so, has the Board of Trade building held its own in that part of the equation?

Carey: Oh, I think so. Who was it, who designed it? Holabird designed it. [Holabird & Root] It's still a destination for all the architectural classes; we get tours all the time in our lobby to show the great art deco. We restored the lobby in the last five years, so yeah, the Chicago Board of Trade still stands at the crossroads here at LaSalle and Jackson, the financial king, or whatever you want to call it, with the Federal Reserve on one side and what used to be the Continental Bank—for people old enough to remember what the Continental Bank was—on the other side.

DePue: Did you have an appreciation for that when you first started trading here?

Carey: Yeah, I did. Yeah I did, because my family was aware of it and it was a famous building and it was in a famous location. It was the way buildings should have looked, as far as I was concerned. It was downtown city of Chicago.

DePue: Okay. When we took a break, we realized there was a couple terms that we probably need to go back and have you define as we move forward here.

Carey: I'll do my best.

DePue: And the one that I've had the hardest time wrapping my own brain around, is derivatives. Tell me what a derivative is.

Carey: I don't know that I can explain it perfectly, but I will tell you what my version of a derivative is.

DePue: Okay.

Carey: What it is, it comes from the word derive, and it's the creation of some sort of an instrument, based on another instrument, that can be traded. A derivative could be the U. S. Treasury Bond contract. It's a futures contract created on an actual cash bond contract. Derivatives have gotten kind of a rough name because of credit default swaps, and swaps and other financial instruments that were created called derivatives, whether they be based on an interest rate risk or whether they be based on another form of derivative, a futures contract on a stock index. Well, a stock index is just putting thirty Dow stocks together or 500 S & P contract of stocks together and creating a futures contract or derivative that people can buy and sell as dispastic. So derivative is a word that can be used in a lot of different ways, but it applies to a lot of the things that we trade down here. Commodities and commodity futures are what the place was founded on, futures on a bushel of corn, and that delivery mechanism was standardized. But these other products, these financial products, a lot of them were derivatives of underlying cash instruments. Suddenly we were allowed to take the best of the margining system and the risk management and bring them into the futures trading world.

DePue: Does that mean that commodities and derivatives are two separate realms, so to speak, or can you have a derivative that's based on a commodity?

Carey: Yeah. I mean, they have ETFs that are based on gold or wheat. So what is an ETF? It's an exchange traded fund where people have put a basket of a commodity into an exchange traded fund so people could buy and sell and invest in that. That's a form of a derivative.

DePue: Okay. I guess what's confusing for me is, you know, I'm looking to relate it to a thing. A thing would be a thousand bushels of corn, for example.

Carey: It's not a thing. It's a lot of things. Derivative, you just have to think of the root of the word, derive. It's derived from something that can be traded like a commodity.

DePue: Okay. How about the word option?

Carey: Okay. Unlike a futures contract, where you either have to liquidate it or take delivery of the contract because it's a contract on an underlying commodity, an option is merely a right. So, you can have the right to buy something at a

price, or you could have the right to sell something at a price. So with options on corn, you could purchase the right to sell at three fifty a bushel, and when you purchase that right, that's going to cost you some money. You've got these indices that will look at how to value the volatility in the marketplace, the time value of the contract, so they will create a price range where you can choose to buy or sell. Conversely, on the buy side, to buy a call option, to buy a put option, or you can sell those, but what the option is, is merely a right, whereas the futures contract is truly a futures contract that would require performance if it is held to the end.

DePue: Okay. So a futures contract and a future option are two entirely different things.

Carey: They are of a different nature in the risk management business. The futures contract does require performance by the buyer and seller. The option on a future merely conveys the right to a future at a price if one chooses to exercise that right to buy corn at a price or sell corn at a price. The buyer of the option has to exercise that, because if I purchase, say, put option on corn at three fifty and the market goes to four dollars, I'm not going to exercise my right to sell at three fifty. I'm going to just allow it to expire and I'm going to sell my corn at four dollars, but it was like buying an insurance premium on a price, is what it is.

DePue: So there's no obligation in the options.

Carey: There is no obligation, no.

DePue: Call and put?

Carey: Call is the option to buy. It's whether you're buying a call on IBM stock or whether you're buying a call on December corn futures. It's the same concept. You pick a price they call the strike price, and you pick a month. And between the month and the strike price, you've identified what you're going to buy and what you're going to pay for that right to buy it. That's your call option. Your put option is the opposite. You're buying the right to sell something to somebody at a fixed price. So, you could buy a put option to sell corn at three fifty, or you could buy a put option to sell IBM at a hundred dollars a share and, again, you're just buying the right to sell something at a price.

DePue: Okay. You mentioned yourself when we got into this discussion that derivatives have gotten a bad name, just like speculators has gotten a bad name.

Carey: Sure.

DePue: Your feelings about the rap that derivatives have gotten here lately?

Carey: It really depends on what you're talking about, because there was a few years back we got into a little dust-up with Warren Buffett because he called derivatives weapons of mass destruction. We say, "Hey, we're a regulated marketplace." And he said, "I wasn't talking about you guys. I was talking about these other guys." I said, "But you've got to clarify that," because we could be grouped in with this and we're not. We're regulated futures exchanges. People know what they're buying or selling. But he was ranting about credit default swaps and the fact that insurance companies like AIG had taken all this risk and those were the derivatives he was referencing, which do give derivatives a bad name because they weren't policed properly and they weren't... There was a lack of responsibility when people were writing these contracts and then they couldn't make good on these contracts.

DePue: You mention the word policing. Talk about how this institution is regulated to make sure those kinds of abuses don't occur.

Carey: Right. Well, we have a regulator called the Commodity Futures Trading Commission; they're responsible for regulating the futures markets in the United States. They came into being, I think, in 1974 or '75, from the Commodity Exchange Authority, which was Franklin Roosevelt's first regulator for commodities. There had been no regulation of commodities prior to that. And what they do is they police the markets. They look for customer abuse, make sure that there's integrity in the marketplace, whether it's margins being posted, they make sure that the exchange is self-policing – where the exchange has authority, like margins, like capital up. They have an oversight responsibility for that, and then they write rules and regulations regarding exchange, mainly to make sure that the exchange performs on its principal agent rules and that the customers are being treated fairly and that there are no activities that would be harmful to a customer outside of here.

DePue: And the policing powers they have if they see some abuses?

Carey: Well, they have a fining authority and they have the ability to ban certain people from participating in the industry. If they think that there's been, you know, some sort of a conversion of funds from a client to a fiduciary, they have the ability to send that case to the Justice Department where it will be prosecuted even further.

DePue: Let's go back to your entry into the Board of Trade in 1978. You said that for maybe the last six or eight years before that time, there had been an increase in the amount of activity, the amount of change that was going on in the Board of Trade.

Carey: Uh huh.

DePue: I want you to go back and talk about those things that were happening that were causing the nature of the Board of Trade to change.

Carey: Sure. Well, it was just really expansion in products. Prior to the '60s, you know, the exchange was pretty much corn, wheat and soybeans. (?) oil. They'd had a rye contract, but it wasn't that big of a contract. In the '60s they came up with plywood contracts, and towards the end of the '60s, they also came up with a silver contract to compete with the (unintelligible ??) in New York. So, suddenly, the Chicago Board of Trade was trading silver. It was trading plywood. It attempted to trade cattle, but it lost out to the Chicago Mercantile Exchange for the cattle contract. And suddenly financial futures, or derivatives, came on the scene. Really the first venture into the securities side of the business was the Chicago Board Options Exchange which was founded by the Chicago Board of Trade; it started here in the old members' lounge by setting up an infrastructure where people could create a central book on different options. At the time Polaroid was a big, a big stock. There were other high fliers of the era. So the Chicago Board of Trade was no longer just corn, wheat and beans. It was silver. It was plywood. They also created the Chicago Board Options Exchange. They traded iced broilers and chickens. Then in the mid- to late '70s, the interest rate contracts started with the Ginny Mae; then going to the Treasury bond, I think somewhere around '78, they listed a Treasury bond contract. And this really set the tone for growth for the next twenty-some odd years.

DePue: Do you know the year that the Board of Trade would have started selling, doing options, for corn and soybeans?

Carey: Yeah. 1984.

DePue: That late?

Carey: Because they were illegal. Because of the Depression, the Commodity Exchange Authority made options on agricultural commodities illegal. It took quite a lobbying effort by this institution to make them legal. They're actually a very good tool for farmers and non-professional traders, because it's like buying an insurance policy: you can protect a certain price without having to deal with margin calls or things like that.

DePue: Why had they been made illegal back in the Depression?

Carey: Because some thought that was the reason that prices went down; so they made them illegal, because they had traded them up until that point.

DePue: Well, the economy took a beating when the stock market crash occurred in '29, but my understanding was that agriculture commodity prices had taken a beating long before 1929.

Carey: Well, they were volatile, you know. You had the dust bowl in the '30s. So you had some pretty big volatility in wheat prices. Commodities themselves moved around pretty good in the '20s, but I can't really tell you. I don't think that they had declined that much, because a Board of Trade membership

traded for \$64,000 or \$65,000 in 1929. So I think there was still a lot of activity and I think prices were still pretty strong for the producer.

DePue: Okay. Let's get back in a period of time you probably remember more of. In 1972 was the Russian wheat deal. How big an impact did that have? This was right after they repealed the Bretton-Woods agreement, I would think.

Carey: Yeah, but I don't think it was related, to tell you the truth. I honestly believe, you know, I think President Nixon at the time had promoted relations with China and Russia. Russia needed to feed their people and they came here for the great grain robbery, as they call it, where they bought a lot more wheat than people had anticipated; suddenly world wheat stocks were in a different position and you had some volatile prices in wheat. So that was really the beginning of the change in commodity markets, because the following year you had a situation where soybeans, which had never traded above four twenty-five a bushel, went to twelve dollars in July of 1973. So you had a lot of things going on in the world marketplace. You still had the Viet Nam War going on. You had markets opening up that had been closed by Communist regimes. You had people delivering food to try to improve the quality of life in those countries. Suddenly we were selling wheat to Russia; we were selling wheat to China; we were selling soybeans and soybean meal to Japan. The commodity markets, which had been kind of quiet for a long time and relatively stable, suddenly went into a new era of volatility that they'd never witnessed before.

DePue: We kind of touched on this before, but, that was perhaps both good and bad for farmers trying to figure out where they were going to hit the market with their price.

Carey: I assure you those prices were good for farmers. (DePue laughs.) They weren't good or bad, they were good.

DePue: Okay. Well, they eventually came down.

Carey: Eventually, after a lot of years of planting and production.

DePue: But did volatility play into the hands of traders? That made it much more lucrative to go out on that trading floor?

Carey: For some. For others, they went broke. You know, they'd never seen prices like that. There was, you know, for every great success story, there's other stories, so it was, you know, it was just the ushering in of a new era of grain trading, because suddenly we were selling grain all over the globe.

DePue: So the volume of trading was increasing.

Carey: Volumes increased. They had electronic wall boards. They were bringing technology in. People were able to phone orders in from Switzerland and

different places, Telex orders. So, yeah, the business was growing and it was growing because there was volatility in price and there was a need to use these markets to, really, to transfer risk, and to protect your businesses.

DePue: I've got a long litany of things where the Board of Trade is going to be going into new ventures and new activities, but before we begin that, what was driving the Board of Trade to be innovative, to try to find new markets?

Carey: Well, I think it was a combination of people who saw the changes that were taking place in the markets. You've got to remember, I think that the amount of bonds that were sold under Jimmy Carter might have been twenty-five billion, you know. Now we're borrowing trillions of dollars. So, I think it was really people that saw the trends, the big picture, the macro; they went in and decided to try to meet the needs of the marketplace. That's really a definition of innovations: meeting the needs of the marketplace, and that's what we did. We brought contracts in that narrowed the cost of borrowing money for a home, the Ginnie Mae contract. When it was a dealer market and was only traded with a handful of companies, there might be a half a point to a point wide between the bid and the ask. When we got it here, it got down to one-thirty-second. Treasury bonds similar. At the Mercantile Exchange it was Treasury Bills that suddenly were trading actively in a transparent marketplace where anybody could access them, not just commodity markets.

DePue: How much was all of this innovation driven by competitors? You've got the Chicago Mercantile Exchange right down the street here.

Carey: I think some of those [were driven] by competitors, but I think there was no doubt there was a friendly competition going on. I think a lot of the innovation was just driven by the opportunity because the world was changing; we had economists and we had members that saw the world changing and decided to position us to take advantage of it.

DePue: So again, I'm going to go through a litany of dates and events that are happening and just get your thoughts on these as we go. One that happened right before you got here—I think you've already alluded to—the U. S. Treasury Bonds futures. 1977?

Carey: We might have listed them in '77, but Ginnie Mae was the first contract. Treasury Bonds came along sometime around '77 or '78.

DePue: '79, trading in gold futures.

Carey: No. Gold started, I thought, in '74. Now we may, as an exchange, have started, but they made it legal in 1974 and the U.S. was able to trade them then.

DePue: 1980. I know this date's right: Embargo on grain.

- Carey: Yeah. That was painful for some people and I think it cost us customers. We'd had an embargo, I think, in '73, as far as soybeans were concerned; it led to buyers investing in Brazil and expanding soybean production down there. That embargo—because Russia invaded Afghanistan, really—it cost us credibility in the world market, because they were going to get the grain anyway with some other intermediary, but we became the seller of last resort.
- DePue: In other words, the farmers are going to really get hurt. The prices plummeted at that time?
- Carey: They sure did. Yeah. They dropped dramatically. Then in the summertime we had a drought and prices actually went up quite a bit because of the weather. But the initial reaction was pretty dramatic.
- DePue: I'm not a hundred percent certain on this next one. October 1982, Board of Trade launches first options on futures contracts?
- Carey: Options on Treasury contracts. There were futures options on Treasury contracts and I was involved in it at the time. The bond contracts had grown to almost a hundred thousand contracts a day from what it had been; it was a small volume situation in 1979 and 1980, but the time was such that that marketplace continued to grow and grow and grow. We were able to list options which were also very successful, and the options on Treasury bonds.
- DePue: Just in terms of the geography of the pit, if you will, with some of these new innovative financial markets, that means you've got to build new pits?
- Carey: Well we did, actually. We built our new building. Basically, the back side of the Chicago Board of Trade wasn't here; this was a parking garage. The front entrance was here from 1929, 1930.
- DePue: The prime entrance being?
- Carey: LaSalle, on Jackson, around LaSalle Street. LaSalle and Jackson.
- DePue: The north side.
- Carey: Van Buren was some small shops, a parking garage. It was nothing. What they did: the Board of Trade members bought the parking garage in the late '70s, knocked it down, and built an entire expansion where the annex goes up. We're in the annex right now. This is part of a new building and it goes twenty-two floors, I believe, versus the forty-three in the front. But this is where we built an entirely new trading floor for agriculture. We took the Treasury bonds out of the members' lounge, or wherever they were trading, put them on the old grain trading floor, and rebuilt those pits and added opportunity.
- DePue: Again, if we are on the agricultural side, do they have a pit for corn.

Carey: Oh, yeah.

DePue: And there's a pit for soybeans?

Carey: Sure.

DePue: But in that pit for corn, they're trading corn futures contracts?

Carey: Uh huh, yes.

DePue: Future options?

Carey: No, separate pits for the options.

DePue: Separate pits for the options. But in that futures contract they're, they're trading ...

Carey: Trading multiple months.

DePue: ...multiple months?

Carey: That's right.

DePue: So that's got to be kind of hard for the novice to keep track of when you're going in there, I would think.

Carey: Yeah, but, you know, they adapt pretty quickly.

DePue: Your life, your livelihood depends on it.

Carey: If you don't adapt, it gets expensive

DePue: Okay. It was 1982—I believe you had already mentioned—that the ag commodity trading moves to this new annex. '84, Board of Trade launches soybean futures options. Okay, you mentioned that. '87, stock market crashes.

Carey: Sure.

DePue: How did that affect this place? It wasn't a crash, but it certainly was a huge drop at that time.

Carey: Yeah. It was a virtual crash.

DePue: Twenty-two percent, I think.

Carey: Yeah. I think that because we weren't that big in the stocks side, our biggest challenge then was bond prices had been pretty low. When the stock market crash took place—it was a crash—the Fed had to come in and loosen and it

created tremendous volatility in the bond price. There were some people that, if they were sitting wrong, didn't have a lot of time to think about it; fortunes were made and lost in a matter of days. Chicago Board Options Exchange, the Treasury bond pit here at the Chicago Board of Trade, the CME had zero dollars in S & P's. So, yeah, it was a scary time because, for that one day—I wasn't that involved in exchange governance, but I've talked to people that were—there were questions on whether or not margin calls would be met and who was going to pay who. It was a real check of the system and the system held up pretty well, but it was certainly a tough time for the exchange.

DePue: You mention margin calls. Maybe we need to take a step back and just explain what that means.

Carey: Margin call is when you trade a commodity, you don't put up the full value of the contract, you put up a good faith deposit. So, to guarantee your performance in the contract, you put up five to ten percent of the value, which, if you look at historically how much prices move, that should about cover your risk in that contract. Now, when contracts become volatile and prices start to change dramatically, then people have to post more margins or they have to liquidate their position. It's as simple as that. Really, that's been the reason for the success here because we didn't have situations where there wasn't enough capital. We called margins in a day, sometimes twice a day, and firms have to put the money up or they have to liquidate the position. That's how, you know, you prevent a bigger problem by making people post those deposits. That's what margin is. Margin is a performance bond.

DePue: In 1987, then—at least what I've read here recently—New York Stock Exchange, others closed, but this institution stayed open during that time period?

Carey: We closed for a little while. There was a circuit breaker-type close at the Chicago Mercantile Exchange and at the New York Stock Exchange; we were closed for some period. Then some people came down here and started making market and we had a very small index—it wasn't even the Dow-Jones at the time—called the Major Market Index. So yeah, we had a small presence there, so we were trading our corn contract, our beans contract, our bonds contract. We were trading. Some people went into this index product instead of making a market, and even though it was down dramatically, everybody else started to re-open and start trading again.

DePue: This far into your career, you're a seasoned veteran of the pit by this time.

Carey: Sure.

DePue: You got married along here someplace as well.

Carey: Sure.

DePue: Tell me a little bit about that.

Carey: Oh yeah. I got married in 1985 to Linda, my wife Linda and we have three boys. We have Charlie, Matt and Jack. Charlie's at the University of Wisconsin now; he's a freshman. Matt is in his junior year at Lyons Township High School, and Jack is in fifth grade at LaGrange-Highland.

DePue: Are any of them future traders?

Carey: I don't know. The business has changed dramatically, and I don't know. I don't know if they like the business and I don't know where they'd fit in the business. It's certainly not like it was in 1975 or '78, where you could bring somebody along, bring them into the pit, teach them the ropes and expect them to have a career. It's a very different business with the technology that's applied and with the consolidation that's gone on in the industry. Tough question whether or not they'll be traders.

DePue: You'd be okay if they did?

Carey: Whatever they want to do, I'm okay with as long as they do it honestly, and as long as they make sure that it's right for them.

DePue: Tell me what a typical day would have been like back the '80s for you.

Carey: It was a pretty good life, you know. It was.

DePue: What were you trading in at the time?

Carey: Corn. Corn and soybeans. I'd usually come down to the marketplace early, seven-thirty or eight o'clock, try to get an idea on what people's opinions were of the market, where we were going to open markets, what kind of a ... If it was the summertime, you'd look at weather patterns and try to get a feel for what the production would be like. If it was not the summer months, you'd be trading demand or South American weather or these other factors. So it was never a dull business, but we had some pretty big surpluses in the mid-'80s. I mean, in the eighties were a consolidation of the grain business, less elevators. More and more companies were acquired by the bigger firms, so the business was going through a pretty dramatic change. Then after 1983, we had some tremendous surpluses. We had a farm bill that—I think it was Freedom to Farm that came on in '85, but I'd have to check—people were trying to get the U. S. government out of being this storage place for the world grain market and making the U. S. the seller of last resort. So they tried payment-in-kind and tried different programs. My typical day was coming down at seven-thirty or eight o'clock in the morning and meeting with fellow traders and preparing to go into the marketplace for the day, to do my trading.

DePue: When did the pit open?

Carey: 9:30, same as it does today.

DePue: And when did it close?

Carey: 1:15 it closed.

DePue: So from 9:30 to 1:15, it's constant motion and action?

Carey: Some days. Some days it gets so slow you'd think it was constant motion and action, and other days when it was really busy, you couldn't believe that the market had opened and closed and you never left the pit. But most days you did leave the pit for some period; there'd be a bustle of activity between 9:30 and 10:00, then maybe from 12:30 to 1:15, and the rest of the time it would be quiet. There'd still be some trade, but not as active.

DePue: On those active days, though, I would think you'd leave the pit pretty well exhausted.

Carey: Yeah, but the adrenaline was going, so you were exhausted, but you weren't exhausted. You were still pumping the juices from being involved, then you'd have swings and moves, whether it be a weather forecast or a crop report or whatever. It was never dull. It was exciting. It wasn't like work at all.

DePue: What happened after 1:30 then?

Carey: I'm not telling you that.

DePue: (laughter) That's the part we're most interested in.

Carey: (laughter) Yeah, right. Well, some days there was lunch and couple of beers with some of the older guys to talk about the market and what directions they were looking for going forward; some days it would be just going back to the office and reconstructing trades and working on charts. Then in the summertime, sometimes you were able to get a round of golf in.

DePue: You did have an office in the building there?

Carey: I did, yeah. I always had an office, either across the street or right in the building.

DePue: Okay. Let's see: 1988, Fed Fund Futures begin trading in May. Does that make sense?

Carey: Two-year notes, Fed Funds. They were all derivatives of the bond. The bond was the contract. The bond was the big contract. Then the ten-year note contract became the big contract when the world went to ten-year benchmark versus thirty-year, and they stopped auctioning thirty-year. So that was sometime along, but that wasn't until the late '90s. So, yeah, the Fed Funds

could have been listed and the two-year note was listed sometime in there. Five-year notes.

DePue: Especially with some of these new financial products, was there a sense of the real prestige jobs being attached to trading in this particular financial area, versus some of the ag areas? Was there any of that going on?

Carey: Yeah. I think the roots were in the ag markets. In the '70s and '80s, the agricultural markets were still the biggest thing. By the mid-'80s, the bonds had surpassed the agricultural markets and the bonds were the much bigger markets; the money flows-in and -out of bonds were huge, so they became kind of a Board of Trade driver of success. Whether it be individuals or whether it be revenues for the exchange, the financial complex became the complex, and by the late-'80s early-90's, they were the driver. Now I was a grain trader, so I preferred to stay in the grain markets; there was activity, but it was not like financial products.

DePue: When they opened up to get into some of these financial products, did you have people moving from the grain floor to the financials, or did you have a new influx of people or a bit of both?

Carey: A bit of both. Mostly you had a new influx of people. But there were some people that wanted to avoid the cyclical nature of the grain markets, so they would spend time learning how to trade in these new pits that had financial products going in them.

DePue: Different dynamics?

Carey: Yeah. Different hours. Different dynamics. Different read. Markets are markets, but there's certainly tricks of trade. It was a different business then and I respect those that went ahead and learned that business.

DePue: Okay. I'm sure you remember this: April of 1992.

Carey: Flood. The flood. Yeah, sure. I knew it because I was the only one who sat in the board room when we had to close our exchange; then we went to a shortened schedule while Commonwealth Edison got back up and the Loop got back in shape. But I was living downtown at the time, so I could walk home. It was amazing where they punched the holes in the tunnel and flooded the tunnels.

DePue: We need to explain what actually happened. This isn't your normal flood.

Carey: No, no, it was not a normal flood. I was aware of this from my construction jobs in the '70s; we actually put the electricity in from 12th Street to help run the Sears Tower in '73, '74, '75. So I had worked in those tunnels and I knew that there were tunnels that went under the river, and I was in them. They were coal tunnels and garbage tunnels, but they were very functional tunnels

that all these high-rises in the early 1900s used; then a lot of the buildings started getting rid of them. They were no longer burning coal; they went to a different energy to heat the buildings and so they kind of closed these entrances up. But that's how all these things moved. They had tracks down there. They had lights down there. It was like a whole different world. Well, what happened was, the city sold these tunnels to Commonwealth Edison, or rented them to them, so that they could bring the conduit in without digging up all the streets, so that's what they were used for. But what happened was, there was somebody was working on a bridge or pylon or something over near the East Bank Club and they drove one of the pylons through the top of the tunnel. Somebody hadn't done their homework, so the tunnel flooded and it cut off all the power to the Loop and it flooded all the buildings, because all the old buildings, whether it was Marshal Field, whether it was all the buildings that were down this far had entrances. There was supposedly fish in the Thompson Center, from the river and all. Marshall Field and Carson Pirie Scott, Chicago Board of Trade, all these old landmark buildings on the Loop had access to those tunnels because they used them at one time. So the water came in and we actually had a flood. We were very lucky because there was a huge telephone switch that the water rose to within a foot and a half of that telephone switch. If it would have hit that, I don't know, a ten million dollar switch, it would have put us out of business for a long time. It's not the kind of thing you just go to Radio Shack and buy.

DePue: But it did put you out of business for a couple of days, a few days?

Carey: Yeah. What it did was put us on a shortened schedule because people had a hard time accessing the building. I mean, the first day, the elevators: people had to walk up and down the stairs, you know, until we got power back. What happened here at the Board of Trade is, our insurance company covered. We went and got back-up generators, so we got going right away; they put them out in the street. So we ran this building on generators that were trucked in and put next to the building; then the power was brought into the building so we could run the elevators and run the basic services so we could open the market. But we basically traded two hours a day then. We traded from 10:00 until 12:00 and closed. So people could liquidate, but it was our normal hours because of the problem with the power.

DePue: Did you have water in the basement of the building then?

Carey: We did. I never went down to see it, but, yes, I was told there was.

DePue: It never made the pits, though?

Carey: No, no. It didn't make the telephone switch, which was important, because that would have put us out of business.

DePue: Okay. The next date I've got on the list here: 1994, after-hours electronic trade.

Carey: Okay. Yeah, yeah.

DePue: And that's probably a good place to bring in the whole subject of electronic trading, which is versus open-outcry trading.

Carey: Uh huh.

DePue: Talk us through that transition, going to electronic trading. What was the implication from your perspective?

Carey: Well, it was a challenge for the members who feared—and correctly—that they could lose their day jobs by allowing this electronic trading in. But the exchange and the leadership of the exchange understood that we had to offer this venue to the client, because other people were going to. Now, initially we just used it in the off-hours, so it really wasn't a threat to what people did in the day. The Chicago Board of Trade did it to compete with the corn trading that was taking place in the Pacific Rim. The Japanese had a corn market and we wanted to make sure that our markets were open and available to those people. So, yeah, the after-hours trading. Initially we were part of Globex, [an electronic futures trading platform established in 1992]. Then we switched to Project A and we brought in different contracts. Electronic trading was in its infancy, didn't have much of an impact on what we were doing, but it was starting and it was starting a trend that was going to continue.

DePue: Is this a generational kind of thing?

Carey: Oh, I don't know if it was truly generational. I think it was driven by technology available and the demands of the marketplace. So, could you cut it off at a generation. You know, it was really about meeting the needs of the marketplace and meeting the demands of the marketplace.

DePue: From your perspective, especially early on, what were the advantages of the old fashioned open outcry pit versus the electronic trading and vice-versa?

Carey: Well, the open-outcry was centralized, and there was an information flow that came out of it so you kind of knew what people were doing. So it created another value of all these people getting together in one room and discussing their thoughts and ideas about what the price of a commodity should be.

DePue: You make it sound a very gentlemanly process of discussing what the prices should be. Again, my vision is of these people yelling and screaming.

Carey: Well, that's the actual trading, but beyond the trading there was a lot of people on phones. There was a lot of people that would be walking the floor talking to different sources. There were people who were viewed as good traders,

honest brokers, honest traders, successful traders, not successful traders, in other words, so you had all these different profiles of individuals involved. People on the outside, on the other end of the phone, they generally wanted to know what certain people thought in the marketplace; it would help them to determine whether or not their thought process was right or wrong or whether they were pursuing the right strategy in the marketplace. So, you know, I call it a discussion, yeah. The trading of it really wasn't where the information flow was. That was when people had decided. They had already made their decision and they were basically competing for prices and bushels and making the marketplace find its level. But prior to that, there was probably more of an intellectual process that took place.

DePue: In the electronic trading, you lose some of that?

Carey: It eliminates a lot of that, yeah. It's a sterile environment. You stare at a screen, you don't get that physical noise and you don't get that idea of what certain people are doing, so you lose that value that really generates activity.

DePue: A couple of years later, in 1996 I believe, you have another opportunity here: you're elected to the board at that time?

Carey: Well, I had been on the board from 1990 through '94; I actually ran for chairman in 1994 and lost. I ran against Patrick Garber and he was going into his second term. He won. I lost. I took two years off the Board of Directors and then in 1996 I was encouraged to run again. I ran for the Board of Directors in 1996 and started serving as a board member again in 1997.

DePue: What was the role of being on that Board of Directors then?

Carey: Well, obviously, there's standard board responsibilities. Then there's really the competitive aspect where, are you design, or where you are going to work with your CEO to design the strategy to take you forward. It was a very different marketplace in 1997 than it was in 1990. You know, the drums were beating. There was the Eurex out there. [Eurex is a derivatives exchange located in Zurich, Switzerland.] It was all in its infancy, but the world was changing. In February of '97 we moved into our new trading floor, and the \$175 million building that we built was joined to this annex. It's on the east side and we were moving our bond contracts in there. Within about a year or two, the life exchange lost their contracts to Eurex for a couple of reasons. One was the fact that people wanted electronic trading. So it moved. The board was concerned with how to best position the exchange; the challenges were a little bit greater than they had been in the past.

DePue: Were you still actively trading at that time?

Carey: Yes. And I'd started a company in 1994. Dan Henning and I started Henning and Carey; we were doing clearing business for about a hundred local traders at the Chicago Board of Trade.

DePue: September 11, 2001. [Now usually referred to as 9/11, when terrorists flew into the New York Twin Trade Towers.] How did that impact this institution?

Carey: Wow. That was ... everything was closed. The markets had been open when the attack took place. When people finally realized what was going on, we put out an announcement that we were going to close; then we closed the markets, and I believe we stayed closed the next day. But I think we were able to open the day after that. It was a somber time, you know; it was pretty scary. Nobody, nobody really knew what to make of it and, but the market took it in stride. I think it was a little bit longer for the New York markets to start up again. In fact, because air travel was shut down, everything was shut down, there was a delegation that drove here from New York to talk about partnering with us, or partnering with the CME. They ultimately decided to go with the CME because of the Globex platform. But we were talking about actually allowing for crude oil trade here at the Board of Trade while they determined what to do with their facilities or how they would put Manhattan back in a position to go back to work.

DePue: Was it especially challenging when you realized, wow, the target for this attack was another major financial institution? And here we are, in arguably the most important financial institution in the Midwest?

Carey: There was a lot of concern. There was, people were concerned about what would be the next target. Would this be a natural target? So, yeah, there was. But people went through those fears.

DePue: This is probably a good place to break. And we'll come back here in just a few minutes. Thank you Charlie.

Carey: Okay.

(End of interview #1 - #2 continues)

Interview with Charles P. Carey

AIS-V-L-2010-016

Interview # 2: April 8, 2010

Interviewer: Mark R. DePue

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DePue: It is still April 8. I'm here with Charlie Carey. Again, I want to thank you for taking so much time out of your busy day to talk with us about the history of the Board of Trade and your own personal history and reflections. I think it's been wonderful to hear these reflections. It's been very valuable and lots of people are going to be enjoying the opportunity to hear what you have to say. When we left off the last session, we'd gotten up to 2001. 2002 was another important year for you personally, was it not? The year that you were elected as the chairman?

Carey: No. That was 2003.

DePue: 2003. You had to make that decision yourself to run for the office, I would think. It wasn't like you were drafted for it. You were encouraged by others to run?

Carey: Well, actually, the chairman at the time, Nick Neubauer, told me that he wasn't going to run for a second term and that he was going to support me. So with that, I got the green light and I ran unopposed for chairman.

DePue: Unopposed. If you had been opposed, it's the traders themselves who are electing the position?

Carey: The members at that time, yes. Anybody who had a full membership or an AM membership had a vote in who would serve on the board or serve as chairman of the exchange.

DePue: How many members at that time?

Carey: Well, there's 1,402 full members on the Board of Trade and there's probably 800 plus AM Members, but they only had a fraction of the vote.

DePue: What does the chairman do, then?

Carey: Well, it really depends on the time of the year. The chairman is responsible for working with the CEO, setting an agenda, ensuring that competent people are hired to run the business of the exchange on a day-to-day basis and then helping map out strategy for the exchange. We were in a very changing environment, so what we were looking at were competitive threats and how best to get the exchange going forward to meet the competition head-on.

DePue: Does this mean you no longer are a trader yourself?

Carey: Well, I still trade. I'll show my losses, you know what I mean? (DePue laughs) But I still trade, and starting in March of 2003, I had very little time to go to the floor to trade. I did once in a while, but not too often.

DePue: Did you enjoy the opportunities that came along with being chairman?

Carey: There's tremendous opportunities. There was a fair amount of stress the first year. A lot of people were predicting the end of the Chicago Board of Trade, that we were going to lose our bond contract to Eurex, that we would be a small, regional grain exchange by the time the competition was done with us, but it didn't happen.

DePue: Was there talk in the wind at that time, also, about consolidation, about the Chicago Mercantile Exchange, those kinds of things?

Carey: Well, there was always talk about that, but within six weeks of the time I got elected chairman, we moved our clearing business to the Chicago Mercantile Exchange because we had a situation where we had a bit of an adversarial situation with the Chicago Board of Trade Clearing Corporation. They were controlled by the large banks and they didn't feel that they had to put up competitive bid-out for our business; that when it was initially designed, the Board of Trade Clearing Corporation was supposed to be just a processing function and a clearing function for its one customer, the Board of Trade. But they were going in a different direction, and we saw the lay of the land as far as global competition. We felt that we'd be in a much better position and much stronger if we were to consolidate that function with Chicago Mercantile Exchange.

DePue: What exactly was the clearing corporation's initial mission?

Carey: To clear the products of the Chicago Board of Trade.

DePue: Which, again in layman's terms, means?

Carey: Which means that the clearing corporation held all the margin moneys. They had capital behind them. The firms that did business here were allowed to be clearing members, which means that they had more capital, membership

stake. Clearing members were actually allowed to perform that function, whereas regular members had to go to a clearing member and pay them to clear the trade. So, in the structure of the exchange, you had clearing members and then you had regular members. Regular members were allowed access to the floor. Clearing members performed the function of guaranteeing trades, posting margins, and paying and collecting on the daily flows within their company.

DePue: In other words, a little bit of a self-disciplining structure?

Carey: Self-disciplining, yeah. The larger firms and banks were clearing members, so they basically handled their pays and collects on a daily basis with the clearing corporation which held those funds.

DePue: Uh huh. Were you chairman at the time that the Board of Trade went public?

Carey: Yes I was. That was in 2005.

DePue: I would imagine an awful lot of work went into making that happen, as well.

Carey: There was a lot of work. Initially, there was the moving platforms. We had been on the Eurex platform. We moved to the...

DePue: Eurex?

Carey: Eurex was the German exchange that was the all-electronic exchange. They had partnered with the Board of Trade Clearing Corporation, and they wanted to compete in the Treasury space. Well, they wanted to steal our contracts, was what they wanted to do. So we decided to compete with them and fight for our contracts, because we had built these contracts over time and we weren't afraid of competition. But we had to do certain things. So, the first year of my chairmanship was preparing the exchange for this head-to-head competition with Eurex. We changed our clearing corporation. We changed our platform. We left the Eurex platform. We went to the Life Connect platform, which we felt was better for the customers. People now could trade Treasuries [Treasury bills] or grains electronically on this new platform, which we felt was a far more efficient platform than Eurex. So, it was a difficult partnership. It was a little bit risky to leave.

We left it, and at the end of year one, they launched their exchange to go toe-to-toe with us, head-to-head; within six or eight weeks, we knew that their challenge was not going to amount to much. At that point, we started making plans to go public; the clearing had already moved, the platform had changed. We were creating a more autonomous situation for the Board of Trade, because some of the strategic decisions that had been made prior to that didn't really leave us in control of our own destiny. So, we're back in a stronger position. To get to public company status, we had to resolve some litigation between the members; because there was a pie, then how are you

going to cut up the pie? The full members thought they should get it all and the minority members, the lesser memberships, thought they should get more. So there was sort of a compromise agreement, and we settled that litigation so that we could go public.

DePue: And when you say “going public”, that means that it’s publicly traded?

Carey: Yeah. The Chicago Board of Trade was publicly traded starting, I think, October 16 or 18, it’s up there on that wall.

DePue: And traded where?

Carey: At the New York Stock Exchange. So, those are pictures of our day—nobody on the camera can see them—but our day at the New York Stock Exchange, and that looks like it’s nineteen on that calendar right there. Is that October 19th? Can you read the red lettering on the picture on the center? It looks like nineteen. So, I’m guessing it was October 19, 2005. Actually, that’s my Uncle Vern ringing the bell. He was chairman in the ‘60s, and when I realized that we were going to go public, I asked him if he wanted to ring the bell. It was just a way of showing the history of this exchange and the family; we weren’t the only family like this. So he did, he rang the opening bell of trading in BOT stock at the New York Stock Exchange.

DePue: That would be an exciting day for everybody involved.

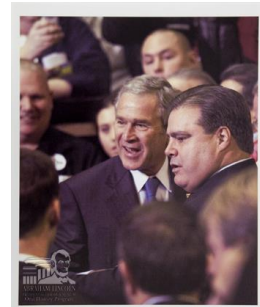
Carey: It was a great day. It was a great day. Very exciting. We got to go down on the floor. We got to stand in the crowd with the people that were making markets in our stock; it was a lot of fun.

DePue: Was there any sense of going down on the floor and saying, “Eh, these guys don’t know how to do it right? The Board of Trade knows how to do it right.”?

Carey: Well, actually, I was surprised at the crowd that showed up. It actually made me feel a little bit like the Chicago Board of Trade, because most of the time you saw posts with one or two guys transacting with each other, but there was a big crowd that showed up around the specialists that post for the opening of trading in our stock.



Carey meets with President George W. Bush and First Lady Laura Bush in January of 2006.



Carey helps President Bush work the crowd on the floor of the Board of Trade.

DePue: Do you remember what the stock opened at and what it closed at?

Carey: I know the IPO price was fifty-four, which was horribly low. We opened up at eighty that morning. And we traded as high as eighty-five, closed about eighty-one. I don't think we've ever been below that price.

DePue: So done very well ever since?

Carey: Oh, yeah. It went right to about one 125 and then went back and forth. That was '05, and it was probably October of '06 that we announced our intention to merge with the CME Group, with CME; at that point, our stock went over \$150 a share. Our stock went as high as \$270 a share, which was a pretty good return for all of us who owned shares of stock in the company.

DePue: Had CME already gone public before you?

Carey: Yes, they did. They de-mutualized before we did and they went public in December of 2002.

DePue: At that point in time, then, was there a serious competition about which one of the two would survive or how a merger would occur? Talk us through that, the whole process.

Carey: No, it really wasn't about who was going to survive. It was how consolidation was going to take place in the industry. In '03, we were still a member organization when we moved our clearing to the CME. But they were not. They were a de-mutualized company and their stock was trading at the New York Stock Exchange. I remember the day that we announced that we were moving our clearing to the CME: their stock opened at \$50 a share on its way to about \$715 a share, but that was a four and a half year, five year process. We saw their success and we were able to work through the issues; when we got into merger discussions, I always felt that we would be able to take costs out of our combined business. We've run more efficiently and we really bring tremendous benefits to the users of the marketplace. So, we were able to do what we felt was a strategic merger. Some would call it an acquisition because we had less forward posts and less percentage ownership.

DePue: Acquisition on their part of you?

Carey: Yes.

DePue: That you would be the junior partner in this arrangement?

Carey: Yeah. That's right.

DePue: What was the strength of their markets then?

Carey: I think they owned their own clearing corporation. They owned their own technology and platform, and we did not; I think that was the biggest difference between the two. On the product mix, they had a little stronger presence in the equity portion, so their S & P index was a stronger offering than perhaps our Dow-Jones Index was. So, their volume had surpassed ours and we were just looking at earnings and volume. So when we did the merger, that's where the price of the merger went down.

DePue: Part of the discussion has to be what happens to you and your position. Your new position in the CME Group again, is?

Carey: Vice Chairman of the CME Group.

DePue: Okay.

Carey: That was all worked out pretty reasonably. Our members wanted representation. The Merc went ahead and said that, "Okay, five years of representation." Some would balk at that, but I think they thought it was worth doing the deal. So the members who had concerns about giving up governance felt better that at least they would have a process. We spent a lot of time putting in governance provisions, enumerated in the merger agreement, that would protect the rights of the Chicago Board of Trade members. So, we spent a lot of time on those things; the rules going forward were settled before we announced anything. I think that they've been very good partners.

DePue: How painful was it, though, to lose that name?

Carey: Well, for some more than others. You know, the fact of the matter is, we're businessmen and we're traders. And if people didn't recognize what had to be done, then they wouldn't be around. So, yeah, it was... you know, it would have been nice to keep the name. We did keep the name; actually, the name's on the building. We are one of the companies in the group. We're the Chicago Board of Trade. And when we quote our contracts, they're the Chicago Board of Trade contracts. So all over the world, there is still a Chicago Board of Trade.

DePue: That farmer out in Iowa someplace is looking at the grain prices that day; as far as he's concerned it's Chicago Board of Trade prices?

Carey: Yeah. When I go to Brazil, when I go to Kuala Lumpur, Malaysia, or when I go to London for the



Carey, hosting a visit by actress Drew Barrymore at the CBOT grain pits.

GAFTA¹ dinner, it's still the Chicago Board of Trade. So I think that was a good deal for everybody.

DePue: What I wanted to do next, since this is part of our agriculture project, is to go into all the things that affect agricultural commodities. Let's face it, in the last few years, 2007 to 2008, 2009, it's been a time period of incredible volatility.

Carey: Right. Right. Yeah.

DePue: I've got some charts here that talk about corn prices. When you go back to 2002, 2003, corn looks like it's selling for right at \$2?

Carey: Probably close to that, yeah.

DePue: And in 2008, it gets up close to \$7.

Carey: Close to eight, very close to \$8 a bushel.

DePue: Yeah. I'll show what I've got here, and let's see if that's accurate or not.

Carey: Yes it is.

DePue: What in the world happened?

Carey: Good question.

DePue: And, again, this all part of, you know, we've talked before about where speculators sometimes gets a bad name because people want to jump on.

Carey: Sure.

DePue: They've got to find an explanation somehow why prices are going through the roof like that.

Carey: Well some would say that this is all caused by speculators. Some would say it's caused by index investors and treating commodities as an asset class. But somewhere in those chart patterns, and I don't know what the right price is—as a trader I never convince myself that I know what the right price is—I try to interpret the marketplace. But, let's look at that timeframe. In 2005, the United States passed the Energy Policy Act, where we supported ethanol and an expansion of ethanol, with subsidies to help expand ethanol because of our foreign dependence on oil. Well, what happened? We went to using close to a third of the corn crop in our automobiles. We're burning it up. That affected world stocks. You also had a situation where we had back-to-back droughts in Australia, so the wheat stocks declined. The corn stocks declined. We planted over ninety million acres of corn. It was the most acres we've

¹ The Grain and Feed Trade Association is an international organization based in London consisting of professionals, operators, traders and transporters in the grain trade.

planted since 1944 or 1946. But, they didn't get the kinds of yields that we get now. So, this crop was supposed... At one time we were looking at a fourteen billion bushel corn crop, but they were going to burn three and a half to four billion in the cars. You fast forward, you had back-to-back droughts in Australia. You had problems in Brazil. You had soybean prices going up. You had corn prices going up. You had wheat prices going up. You had rice prices going up. But a lot of it had to do with the lowest stocks we'd seen since 1946 and the Marshall Plan, when we also had big volatility.

DePue: Well, I heard some conversation that there was money going out of the stock market and into commodities, and that was part of what was fueling this peak?

Carey: That's what some people believe.

DePue: That's not what you believe, though?

Carey: No, not entirely. I mean, I'm waiting for them to prove their theory. Now they all talk about, you know, hot money, there's hot money going into these markets. It's hot money going in there. There's no doubt that the index investor came in. But was it strictly the money? Or was it because, the studies we've seen, show that the market is still working? Then they claim, there was no convergence and the markets were broken and it was the speculators. But the money in the market from these people expanded dramatically because the market went up so much. They actually de-levered this whole process in '08 when the recession started. But there's a lot of people that believe that it's just that the money that went into the market caused the market to go up.

There's no way that I'm going to buy that as the only reason, because how do you explain the fact that there was rioting in Indonesia, there were riots in Egypt? They were buying cash commodities at prices we'd never heard of because they had political unrest, because there was a disruption in the supply. And that wasn't caused by speculators. That was caused by a series of events, whether it be the ethanol usage, the shift of acres out of wheat and into corn planting, the shift of acres out of soybeans and into corn planting. That one decision, the ethanol decision, was probably the biggest driver of change. Then you throw in the back-to-back droughts, then you throw in the effect of what happened to the dollar, and the decline in the dollar versus the euro or the yen. All these things contributed to much higher grain prices. But I think the biggest factor was we that took acres from food stocks and put it into fuel, and that was driven by oil prices. Now were oil prices driven strictly by speculators? I don't think so. I think India, China, people building low-cost automobiles in those places, were actually buying physical crude oil. They're starting to blame the speculators again because crude oil's getting back near eight-five or ninety dollars a barrel where [they say] there's no demand. You know, in the U.S. there's no demand, but the fact of the matter is, is these other economies are expanding and are over-heating and more and more people are driving cars in those areas because they have a

better quality of life, a better standard of living. They're using more food. They're using more fuel. They're buying more cars. We don't dictate it.

But the Chinese aren't sitting around blaming the speculator. The Chinese are out doing joint ventures with different countries that can provide them the actual fuel that they need for their future. So, I guess I'm not a believer in the speculator as the cause of this.

DePue: Well, just listening to you, you listed a score or more of different impacts that caused these things to change over time

Carey: But it's real easy to say speculator (chuckle). I mean, it's a very simplistic approach to what we just witnessed in the last five years.

DePue: It's human nature, I think, for people to try to find one thing that they can understand to lay blame on.

Carey: Sure.

DePue: If you would overlay oil prices against this chart—that we've got here in front of you—on corn, it would probably practically mirror the spikes and the valleys that you've got.

Carey: You're absolutely correct. And there was one other big thing. The Chinese were putting on the show of shows in 2008 for the Olympics. They had an earthquake, and one of their hydroelectric power dams went down. They had to import more and more fossil fuels to ensure that they had the electricity in that country to make sure that they put on a good show. And they did put one on. All the commodities stopped at once, and it was relative to the Olympics that year. It's kind of scary, but a lot of people told me that the prices would stay strong until the Chinese were done with the Olympics. Now that seems overly simplistic, too, but if you look at a map, or a chart of crude oil, and if you look at a chart of commodities, and you look at all these things, they stopped one month before the Olympics. So, there were a lot of things going on. Obviously, I think the energy policy in the U.S. and the growth of the economies in India and China and different countries' standard of living, they've all contributed to these things.

DePue: Are you a critic, then, of American energy policies, especially as it relates to ethanol production?

Carey: What policy? No, I mean, there's a lot of policies. I like to quote an e-mail that's gone around about the energy department, which was created by Jimmy Carter to eliminate our dependence on foreign oil in the '780s. "I think it's a twenty-five billion dollar department, and I want to know what they've done to eliminate our dependence on foreign oil." So, am I critical of ethanol? I think, looking at what you're looking at today, you're going to need that ethanol, unfortunately, but it's competing with food. So how are we going to

deal with the fact that we may see less usage here in the U.S., but is it enough to overcome what's going on in these other countries?

DePue: Bottom line, this is always a discussion about supply and demand. On the demand side of the equation—you've talked about it a lot already—the emerging markets of China and India. It's not just the Olympics, but changing diets that they have in China where there's more meat involved and they want more grain that's produced in the United States. Are these things that are affected in there, as well?

Carey: Absolutely. Absolutely. I mean, we got off on the energy policy and the price of corn, but the fact of the matter is more protein, more meat, more chicken, pork, all of it, creates demand for our grains. Also, the fact that their economies are driving so many of these increases, and they can afford it now, you know. So we're seeing this increased demand and the exports that we've witnessed from the U.S. and from Brazil to China, are staggering, the amount of growth in that export market. I can remember: one of the best traders I ever met in the early '90s said, "If they just eat one more tablespoon full of soybean oil, you know what kind of a bull market you're going to have?" Well I'm living that right now. I'm seeing it, witnessing it, and they are driving world prices today.

DePue: On the supply side of the equation—again, you just mentioned this as well—you've got Brazil, you've got other markets that are really contributing a lot more, especially on soybeans in the case of Brazil, Australia, places like that for some of the other grains. How has that impacted the grain markets over the last five to ten years?

Carey: Well, I think there's always been a lot of fear about Brazil and what it would mean to our farmer in the U.S. Would it put our soybean farmer out of business? How would we react? What would happen? I think those concerns were around in '03 and '04. I think part of the reason of the energy policy was that, well, we know we can grow corn in this country, we're the best at corn, but soybeans – they do a pretty good job in South America. So, you know, what started out as a policy for maybe energy and maybe our corn surpluses or our soybean surpluses, you know, has helped to drive prices, but Brazil is a competitor. We're enjoying very good prices now and they've just grown the biggest soybean crop in history; they've set records down there, and they're about to rebuild the stocks, yet the demand is holding prices in. So, it's kind of an amazing thing to watch, that if somebody would have told me twenty years ago that Brazil would be growing sixty-eight million tons of soybeans and Argentina, together, they've outstripped our production, yet, we're still in a strong, a \$9 soybean market. Pretty wild. But that's the power of the growth of these new economies.

DePue: For your average trader: they come in and they pick up the Wall Street Journal, they pick up the Chicago Tribune, something like that, and they start

reading about the instability in the Middle East. How does that affect the kind of decisions they make when they get to the trading floor?

Carey: Well, I think traders have to look at the instability of the Middle East, and particularly how that's going to affect our economy. How's that going to sort out and all? Obviously, the impact isn't nearly as great on our commodity markets as it could be on our stock market. What could it mean to our stock market? What could it mean to our defense spending? What could it mean to U.S. spending?

DePue: Well, I was thinking in part the oil market, the availability of oil. Is there a link between oil and other commodities?

Carey: Absolutely. I mean, I didn't link it in that way, but the fact of the matter is, any disruption in the Straits² [of Hormuz] over there, the [Persian] Gulf, yeah. What would crude oil trade at if we couldn't get our supply? Would it be worth, what? You know, it could be worth, who knows? Because so much driving [the demand] is inelastic. People have to use X amount of energy. So, while we ration some, we're not at a point where we're not still very dependent on foreign oil. If there was a destruction to take place, we would have some difficult lifestyle decisions to make on this side.

DePue: What you've just described here in the last fifteen, twenty minutes, is that just about everything has an impact on the market.

Carey: Every day. Every day. That's what's great about it. You are constantly watching the world events and then measuring them against what values you should seek and how you protect yourself against risk. What do you do with the risk? How do you protect a stock portfolio? How do you protect pricing in soybeans? What happens with metals prices, energy prices? All of these things, they're all right here.

DePue: What I want to turn to next, is kind of get back to the farmer's perspective, or that grain elevator's perspective. Can you walk us through a decision-making process. I've developed a scenario here, if you'll bear with me, can you tell me if it's realistic or not as we walk through it? Let's say we've got a farmer in the spring of 2010 who's planting his corn crop right now. And he's worried about the volatility in the market, for all these reasons we just talked about. There's a lot of change going on in the world. He's decided that he wants to sell a part of his 2011 crop. He's planting 2010.

Carey: Why would he do that?

DePue: You're saying that's not realistic?

² A significant percentage of the world's oil supply passes through the Strait of Hormuz, which separates the Persian Gulf from the Arabian Sea.

Carey: I don't know if they would, I don't know.

DePue: Okay.

Carey: Look, it's possible, you know.

DePue: I have talked to farmers who, at least walked me through that thought process themselves as a possibility that they could do that.

Carey: Sure. Yeah.

DePue: Okay. So let's say he wants to sell part of his 2010 crop long before he actually has to harvest his 2010 crop. Let's put it in that perspective. Fifty thousand bushels of it. What would he do? How would he go through that process then?

Carey: How would he hedge here at the exchange?

DePue: Yeah.

Carey: And he wanted the fifty thousand bushels?

DePue: Hedge is another one of those words here.

Carey: Oh, yeah. Hedge is a funny word. It means that he's producing cash corn, and if he were to sell a futures contract, that would be a hedge against the decline in prices.

DePue: Okay.

Carey: So, he would be a seller. If he's a producer and he's going to bring corn to the market in the fall, he would look at that time of year to do either forward contracting or he'd come to this exchange and he would look to sell fifty thousand bushels of corn, probably for December delivery, against the 2010 expected harvest. And the hope is that those prices, with his basis locally, that they relatively converge. At the end of the contract, the basis would hopefully narrow, and that he'd be able to buy his hedge back and deliver his corn to somebody in a nearby location that would take the corn.

DePue: Basis. Define basis.

Carey: Basis is just the difference between the cash price and the futures price. That's your basis. So, if I have a farm on the river and they may be bidding me twenty under, that's a twenty cents basis. They're paying twenty cents less because they actually have to take the corn, dry the corn, put the corn on a barge, send it to the Gulf of Mexico for export; or they put it on a train and send it somewhere where it's turned into either feed, feed lots or they turn it into ethanol. They do something with that commodity. So, they're on the

opposite side of your trade and they buy the cash and cover their needs. You would sell the cash and buy your futures. They would buy the cash and sell their futures, because they may be opposite way in the marketplace. They know they have to deliver a certain amount of trainloads to a user, an end user, or barge load or whatever, so they would unwind that trade come harvest time.

DePue: Okay. And who exactly would that farmer be selling to or negotiating with at the beginning of this? Would it be an elevator operator? Would it be a broker on the exchange here? What?

Carey: Well, well, let me go back. If we're talking about the hedge, he could have a firm, he could have a company that he would call. He's got an account with them and he would say, "Look, I want to sell fifty thousand bushels of corn for December delivery." They would execute it on the electronic platform or send it to the pit, but somebody would execute that trade for him. Somebody would take the other side of the trade and they would tell him, "Okay. You sold fifty thousand bushels of corn and your price is three fifty-one and it's December delivery and you're all set." You have to keep X amount of margin in your account and that's it. Now, come harvest time, he would either go to a local elevator or somebody who actually is in the business of taking cash grain and he would sell them the cash. If it's a large enough local elevator, they may provide him a market for his basis, saying, "Okay. I'll do this with you. Where do you want to do your futures? Where do you want to do your cash? Let's unwind this trade." That's how people unwind a futures-to-cash trade that they have on.

DePue: This process you've just walked us through here suggests that we're not talking about a dumb farmer out there. They have to have some kind of a really solid sense of the market, and business and economics to be successful anymore.

Carey: Yeah. Oh, yeah. Farmers are pretty sophisticated. But they don't all use the futures markets. A lot of them do forward contracting and then the elevator does the futures contract. There's a lot of different ways to manage risk in today's environment. A lot of the big companies took the role of hedger from the farmer and provided him with just guaranteed contracts come harvest time. Then the elevator becomes the hedger, and they're probably a little bit more accustomed to it.

DePue: Because they're making those decisions practically on a daily basis.

Carey: All the time. A lot of time your bigger firms actually centralized the book of buying and selling and so they're very sophisticated and they know how to handle those transactions.

DePue: Okay. We're about at the end of this. I wanted to give you a chance to reflect on some final questions here in wrapping up. What do you think, in the years that you've been involved with the board of trade and with trading grain, is the most important, most transformative change you've seen?

Carey: The most transformative? I don't know if there's one single event. I mean, we kind of discussed the whole change in product offerings and the grain markets. The biggest change: we went to a river delivery contract. We've changed our contracts to reflect the fact that a rail delivery in Chicago became difficult. These were big changes. Shipping certificates: these were big changes to the grain market. The transformative change, where you just put out the chart, now that's a change, but that's a change of the underlying marketplace driven by government policy and then acts of nature.

DePue: There's an infinite number of variables after that.

Carey: Well, that's right. Like I said, back-to-back droughts, shifting of acres, energy policies, world crude oil prices, unrest in the Middle East. All these things. The biggest dynamic of change in the emerging markets: China, India, all these, all these improvements of lifestyle are the things that we're talking about. I don't know if that really answers your question, but these are the biggest changes we've seen, the change in the world, the globalization and what it means to the grain business. I mean, we're going to produce another thirteen or fourteen billion bushels of corn. When I joined the Chicago Board of Trade, we were limited down because we grew six billion bushels of corn, and now we're growing fourteen billion bushels of corn and prices are a lot higher than they were when we growing six. So I mean, this is a lifetime of trading and it's been ... it's been interesting. But these changes really, they're not done. We keep evolving. We keep changing. As governments determine policies, as different countries decide how they want to manage global warming, or cap and trade, emissions, all these things, they all have an effect on what we do. But the biggest change, I'd say, the biggest transformation was really the size of the customers we have now, that the economies of other countries are improving.

DePue: Okay. What do you think the future of board of trade and CME Group is?

Carey: Well, I think the future is that we're going to be around. I think that we're going to be part of the global marketplace. I think that market share gets distributed, but I think that overall, the need for products like this grows. Whoever thought China would have a futures contract? I mean, in 1989 they couldn't even feed themselves. They're going one direction, we're going another. They come and talk to us and then they create the Dalian Exchange and they trade more corn and soybeans than we do, you know. So, on a volume basis, you know, they've a lot of people to feed. They crush a lot of soybeans over there, so, I just think global trading's going to take place, and I

think we're going to be a big part of the benchmark status, be part of the growth that's going to continue.

DePue: Now here's the hypothetical for you. You've got three boys. What do you tell one of those boys when he comes in and he says, "Dad, I think I want to get into this business. I want to be a trader."

Carey: I say, "Why?" (laugh) No hypothetical question. Well, I'm going to have a little practical experience yet this summer. One of my sons is going to be working with me, and I just have a little bit tougher time defining what a trader is now versus what a trader was when I first joined. When I first joined, as I said earlier in the interview, it was easier to position somebody to come into this business and give them a decent chance at success. Now, it's a tough business, it's a growth business, but computers have come along, high-speed traders, algorithmic traders. You've got MIT graduates designing trading programs. This is not the business I came into, but this is the business I'm in. So, I would say, "Follow your dreams and if this is what you want to try, try it, and I'll be as helpful as I could be."

DePue: Any final reflections you want to share with us, Charlie, to close this up?

Carey: Well, I think the only thing we didn't really get into was some of the characters down here. The names wouldn't mean that much to the audience, but I would just say that some of the risk takers, some of the characters, some of the guys that really were part of this place in the '30s and the '40s and the '50s, '60s. The place has always had its share of characters and really fascinating people. I think that's probably one of the greatest things about my experience down here was the people and the types of people. We're a microcosm. You know, you meet good people, you meet bad people, but there's a lot of trust down here. When we had open outcry and just waving our hands, we had to have a lot of confidence that you meant what you said and I meant what I said and ... you know, the whole thing about your word is your bond and all that, that's true. And that's what we're taught. So, when I look back at what we've gone through and this tremendous growth and having a career in this marketplace, I say I'm fortunate and I'd say that I really enjoyed meeting the different people that I've met.

DePue: Well, we've thoroughly enjoyed having a chance to talk to you and learning a lot more about the Board of Trade. I understand a lot more and I understand enough now to realize I'm still very ignorant and I've got a lot more to learn, but it's been fun.

Carey: Well, for me, it's only been thirty-some years in the making. So, (both laugh), you know, so thirty years from now you might be good. But, it's been a great business. And the fact that we're tied to the agricultural side of it and to the farmer, this is part of our history; once you start to get past the vocabulary, then you have a chance to understand what's going on.

DePue: It sounds like you've had a lot of fun.

Carey: Oh, yeah. Absolutely. And I appreciate you coming out to see us here.

DePue: Thanks very much, Charlie.

Carey: Thank you.

Interview with Charles P. Carey

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Interview # 2: April 9, 2010

Interviewer: Mark R. DePue

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DePue: (Background crowd noise.) Good morning. This is Mark DePue, Director of Oral History at the Abraham Lincoln Presidential Library. I'm here with Charlie Carey. Good morning, Charlie.

Carey: Good morning.

DePue: It's April 9, 2010. We're here to talk about the opening bell in the...

Carey: Options...

DePue: ...in the grain markets. Charlie, why don't you tell us what we're about ready to see.

Carey: Well, it's 9:30 and probably since the 1800s they'd open this market at 9:30. We're going to open the grain markets. The grain markets are anticipated to open higher in response to world grain stock report that came out at 7:30 this morning. So, it will be interesting to see the interaction. This, here, is the

corn options pit, and being from the Midwest, we grow a lot of corn here. The far side is the soybean options. This is corn futures.

DePue: In the center?

Carey: In the center. On the far side of the room is soybeans, and we have wheat trading over there. So, you've got an idea. All the grains open at the same time and they all trade on a relationship basis. People who will trade one versus the other. So it will be interesting to see what kind of a flurry of activity we have at these higher levels this morning.

DePue: You've got a pretty tight schedule today. Can you tell us what happens right after we're done filming for you?

Carey: Well, we do our other job, which is, we're meeting with Senator Stabenow from Michigan about regulation. In light of the current proposals in Congress, we want to make sure that the U.S. remains the benchmark prices for these agricultural commodities. We want to make sure that the regulations provide for good, efficient markets, that does not disadvantage the U.S. compared to other places in the world where they can trade these commodities.

DePue: Is this a routine occurrence that you have visitors like this that you have to take care of?

Carey: Well, it's... yeah, it's a big part of the job. We're regulated by the Commodities Futures Trading Commission. Prior to that it was the Commodities Exchange Authority. We've always enjoyed a good working relationship with the regulator, because the integrity in this marketplace is key to keep the business here.

DePue: There's been an awful lot of talk recently because of the recession, the severe recession we're in, to kind of have more over-watch from the government, more regulation. Is that part of the discussion today?

Carey: Well, today, I'm sure it will be part of the discussion. You know, people want to know why the prices go up. I think we had a pretty good discussion yesterday about a lot of the reasons that contributed. Some people want to blame speculators who participate in this market. I would say that there are far more global factors affecting the price of commodities now than ever in the past; I think we highlighted some of them yesterday. But these markets are open, they're transparent. Anybody can trade in them who has a trading account and a firm that guarantees trade. Really, this is where farmers and commercials can offset their risks, in these trading pits here.

DePue: Okay. We've got about thirty seconds before the market begins, so very quickly...

- Carey: Put your fingers in your ear, and hopefully we get some noise out of the options pit here.
- DePue: What would be your official position as far as regulation? Would you prefer to see less, or are you okay with a little bit more?
- Carey: I just want it to be balanced and even-handed, that's all.
- DePue: Okay.
- Carey: I think you have to take a prudent approach. I think what you have to guard against is regulation that's reactive to a certain narrow set of circumstances versus looking at the big picture.
- DePue: Okay. I'm going to turn it over to you because we're seconds away from the bell.
- Carey: Okay. Like I said, there should be a little excitement (bell ringing) there. (Background crowd noise increases.) Okay. You're seeing the corn futures pit. They've opened the market. What the price is? It looks like it's about three and a half cents higher, not quite as high as they'd anticipated. Wheat is eight cents higher and soybeans are ten cents higher than the old crop, but they're only three cents higher than the new crop. That's because the grain stocks were forecast to be a hundred and ninety million bushels at the end of this year, which is a little bit tight. If there's any surprises, then that's not a lot of surplus to deal with coming into the end of the year.
- DePue: Why are we seeing so many more people in the options pit than in the futures pit?
- Carey: Well, the futures pits today are not as populated because about ninety percent of the futures transactions take place on the Globex platform. They take place electronically, where people anywhere in the world can access these markets within nanoseconds and have the same access that anybody else does. But there are still certain strategies that are sent to the pit. There are still people that participate in the pit. In options, it's the reverse. Eighty to ninety percent of that business is done in the pits because ... it's just the nature of the instrument. People still like to use the open outcry markets for price-discovering options.
- DePue: I want you to take some time now to explain to us the geography of the pit, what it means to be on certain levels, what it means to be wearing certain colors of coats, things like that.
- Carey: Well, the geography is basically so that there's an understanding of what you're trading. As you can see, it gets loud down here and sometimes you can't hear everything perfectly, so when it gets active and there's multiple voices hollering to compete for the same order or the same price, okay, the

bottom line is, if you're standing in this part of the pit, you're trading the front months, possibly the May options or...

DePue: You mean what we're seeing to the camera's the right side?

Carey: Yes. We're looking at the corn option pit and those closest to us are probably trading the options on May corn, which will expire in about two weeks. In the back of the pit, they're trading things further out, like new crop corn, December corn, is what they'd be doing. So, anyway, that geography helps the marketplace flow, tells people where to put their orders in. It tells the people participating, it helps them to make sure that there aren't any mistakes in the execution or disagreements in the execution.

DePue: How about the different levels in the pit? What does that mean?

Carey: Well, generally, the order fillers are on the top step so that they can access the computers on the outside and the clerks can access them to bring them orders. So, when they're representing a customer there, there's easier access and better communication for those people that are on the phones or back in their offices anywhere in the Midwest.

DePue: Okay.

Carey: Or around the world.

DePue: Tell us a little bit about the different colors. I mean, it's obvious that these bright colored coats mean things to people.

Carey: Yeah. It's like the steps. It communicates what firm you're with, so that's one other form of communication. If they're wearing a green jacket, you trade through Iowa Grain, perhaps. If you're wearing a blue jacket, you might be trading through ADM Investments. A purple jacket, Rosenthal. So, again, it's all forms of communication. The bright jacket, now it might be somebody's just personal taste; but more often than not, it indicates a company, so somebody can look at the color and help them record their trades and know who their counter-party is when they're trading with each other.

DePue: Did the colors change where there was a merger?

Carey: No. No, we were allowed to keep our culture and they were allowed to keep theirs. They had stricter rules on clerk's jackets than we did. We allowed the clerk to wear the same color jacket as the broker that he's working for, as an easier identification. The Merc had their clerks all wear mustard colored jackets so that you can tell who the clerks were, but we thought it was more important to structure it this way so that people could identify the teams of brokers that they're working with.

DePue: How do you differentiate, looking down there, the actual traders versus the runners that you've been talking about?

Carey: Well generally, if you'll look at somebody, the runners don't have a badge. If you look at the members, over in that corn pit, you'll see a yellow badge with some letters on it. That's called an acronym and you might take your initials. My badge says CPC, Charles Peter Carey. It could be the name of your son or daughter. It could be just something that... again, a form of communication. People can look at that badge, look at the color of the jacket and they can record that transaction on a card or, more than likely, into a hand-held, which will put it into a clearing system.

DePue: Okay. For a novice like myself looking out here, it looks like total chaos. I know from your perspective, it's very controlled, orchestrated chaos. Explain to us things like what we're looking at with the hand gestures, then, and actually what's transpiring down there.

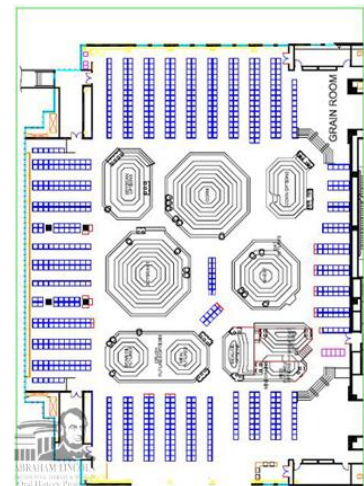
Carey: Communication, trade, principal to principal. The hands can be used to indicate a quantity, the hands can be used to indicate a price, the hands can be used to indicate a contract month, so that all these things are agreed upon before the transaction is fully agreed upon. Because if there's an error through communication, you'll have what you call an [?undecipherable]. I thought I bought December corn from you at a price and you thought you sold me May corn for a different price; that has to be resolved. We have rules and regulations for resolving those things; that was the original intention of the Chicago Board of Trade in 1848, was allowing for disputes to be resolved without going to a court of law. You went to a group of your peers, they were resolved, and it allowed you to speed up your commercial transactions and have certainty in the transactions that you've made.

DePue: So basically, the market existed to improve the efficiency of these exchanges?

Carey: The market? No, the exchanges improved the efficiency of the markets.

DePue: Okay.

Carey: I would say the reverse, because the exchanges originally were chambers of commerce or boards of trade and that's how we got the name Chicago Board of Trade. Then they evolved into these futures trading pits. They came around sometime in the 1870s, so this has just been a constant evolution of the exchanges to meet the needs of the marketplace.



A schematic of the grain room and the CBOT.

DePue: Was the open-outcry pit an innovation that's unique

to the Chicago Board of Trade? Were you guys the first to be doing that?

Carey: I think we have a patent on the design for the pit that goes back to the 1870s. I think if you look around at the archives, they have pictures of them building the first pit and the architect's renderings of the first pit, so that people could stand in a structured place and know if they were trading corn or wheat or rye or oats.

DePue: How do we know when a transaction has been completed, just by watching the action here?

Carey: Well, only the principals know for certain, you know, the two people. The most important thing is that... That gentleman with his hands exposed outward is offering an option on corn at a price, probably multiple contracts, and people are bidding lower and they're trying to haggle over that half-cent differential.

DePue: Okay. Once the transaction is done, are they writing it down on a piece of paper or handing it to the runners?

Carey: Well, generally, when it's done in these pits, it's put on a piece of paper. It's handed to a clerk, and the clerk's responsibility is to input it into the computer like that gentleman's doing right before your eyes. You see, he's typing trades in into the system and they're being cleared on-line instantaneously.

DePue: Okay. Then we've got over on the right-hand side here, all of the computer terminals. What's going on there?

Carey: What's going on here is these people are running desks for a firm or customers and the traders; they generally service the customers. So, prior to computers and electronic trading, the only way to get an order in, if you weren't here yourself on the floor, was to phone it in, and they'd phone it to these people. These people would report it, time-stamp it, then deliver it to the appropriate pit for execution.

DePue: Okay. Let's spend a little bit of time talking about the boards, because that's an awful lot of information for the novice to try to comprehend.

Carey: Oh, yeah. Those wall boards are expensive items, too, I can tell you that. But when you look up there, what you see on the wall board... In this quadrant, you're seeing wheat prices; you're seeing May wheat which will go off the board in about six weeks. You see the July wheat, which is the first new-crop wheat. And then next to that, you'll see various spreads communicated where they're trading May-July, or May-Sept. Some people just trade the differentials between the different months. Then following... That is the corn prices. Then you get into soybean meal prices, soybean oil prices and then soybean prices. Those are the big boards on top. Below that, you see smaller displays, and that's for all the other markets that could have an affect there,

and you see an S&P quote. You see the price of metals; they're on this board. You see the price of cotton. You see the price of lumber. You see all the things that affect the economy are displayed because traders may be standing there, but they may have a position in a different marketplace by virtue of putting an order in and trading that market. So you've got crude oil prices up there. Everything's somewhat inter-related.

DePue: That's something that I wasn't prepared to understand and it makes perfect sense as you describe it here, how all of these markets are inter-related. When one market moves, it impacts another as well.

Carey: They're inter-related by virtue of money flow and sometimes by virtue of substitutability. I mean, there's an energy component to the price of corn market; it's called ethanol. So, if somebody's trading corn because of ethanol, they want to look at the crude oil prices and see if the price is up or down and how it would affect the margins in the ethanol business.

DePue: This has been a wonderful experience to spend the last couple of days with you.

Carey: Good.

DePue: You've got a couple more minutes, Charlie, before you've got to run and see the senator. Any final words that you want to give us then?

Carey: Well, I hope that the people that are able to view this learn a little bit about this. I'm very pleased that we're putting this into an archives and historical vault, so the people can know what we've done for a living for a long, long time around here. These markets grew up with the Midwest, grew up with the city of Chicago. They've been an integral part. The form of the centralized marketplace is evolving to the electronic marketplace, which does not have the personality, does not have the faces; it's merely a price on a screen. So I hope this is around for a long, long time. But right now you can tell electronic trading has taken over in the futures, because the noise would have been deafening on a day like today. You couldn't hear yourself think if they were trading here, but they're all looking at these electronic screens; that's something that the marketplace demanded. So we met the needs of the marketplace. Unfortunately, it has an impact on the culture that we all grew up with.

DePue: Yeah. Well, I can tell why it gets in the blood after you do this for a little while; it's exciting to be down here in the pit. A, it has just been a wonderful experience. Thank you very much, Charlie.

Carey: Thank you. Thanks for coming in and doing these interviews.

DePue: That's it. (End of interviews)