Speculator Richard Dennis Moves Markets And Makes Millions in Commodity Trades
By THOMAS PETZINGER JR. Staff Reporter of THE WALL STREET JOURNAL
Wall Street Journal (1889-Current file); Nov 8, 1983; ProQuest Historical Newspapers The Wall Street Journal (1889 - 1989)
pg. 37

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CHICAGO—Richard Dennis knows that electronics burglars are trying to break into his computer, and he's not surprised.

Stored inside that mainframe computer are many of the coveted secrets that have helped Mr. Dennis earn about $50 million a year in commodity speculation. At age 34, he has become a fearsome force in the commodity markets, rivaling the power and success of such institutional investors as Salomon Bros. Inc. and Pillsbury Co.

At the same time, he has eschewed the social and political mores of his trade. He avoids fashionable drugs, drives an old car, wears polyester suits and supports liberal candidates and causes that are anathema to most of his colleagues.

Mr. Dennis says he is enjoying his most profitable year ever, thanks in part to the summer drought and the federal deficit, both of which have made prices volatile in the commodity markets. He deals in such volume that he can single-handedly influence markets even if he doesn't intend to, many traders say.

"When he moves the market, anyone who stands in front of him is inviting disaster," says Thomas Fritz, a trading manager for Tabor Commodities Inc.

A Favorite Customer

In a typical recent week, he helped drive down the commodity market's contracts on U.S. Treasury bonds when he sold more than $200 million worth. Two days later, he helped lift soybean prices to recent highs by purchasing at least three million bushels worth. Lately he has ventured into stocks, emerging as a favorite customer of some investment bankers when they need a buyer for a big block of pension-fund stock.

Mr. Dennis plans to share some of the strategies that built his reputation. He intends to train a dozen handpicked traders in his methods, give each a big grubstake and turn them loose in the commodity markets. His advertisement for applicants ("no experience necessary") drew 1,000 responses.

"There's no charity involved," he explains. "I'll take most of their profits." The young traders could easily wipe out, but Mr. Dennis is undeterred by the risk. "I'm tired of investing in someone else's condominium in Timbuktu," he says.

A former exchange clerk and later a trader in the tumultuous commodity "pits," Mr. Dennis now keeps largely to himself. He places orders from a nondescript office 19 stories above the trading floor of the Chicago Board of Trade. Seated at a table cluttered with vitamin bottles and price charts, he watches prices jumping on four TV screens. He frequently picks up the phone to an exchange floor in New York or Chicago and buys or sells tens of millions of dollars in commodities with the calm of someone ordering a pizza.

During a recent two-hour interview, he purchased three million bushels of soybeans valued at roughly $25 million and sold 20,000 ounces of gold valued at about $8 million. Like most traders, he never receives or delivers the commodities, instead speculating on the rising and falling value of contracts calling for future delivery of the underlying assets.

Yet Mr. Dennis bears little resemblance to the flashy, go-go image cultivated by other commodity traders. He drives a beat-up 1977 Mercedes and hikes his polyester pants over his substantial waist. Many successful traders his age never take vacations, and some snort cocaine to remain alert; Mr. Dennis recently spent a month in England and says he takes a lot of naps.

When hiring people for his trading partnership, C&D Commodities, he bypasses pin-striped MBAs and offers jobs to his high school buddies from St. Lawrence Boy's School on Chicago's largely blue-collar Southwest side. He owns a piece of the Chicago White Sox but roots for the Chicago Cubs.

Richard Dennis

His politics, in particular, are out of step with the conservative Republican, lily-white world of commodities. Mr. Dennis donates substantial sums to liberal Democrats and was a major contributor to Harold Washington, Chicago's first black mayor. He keeps a "Ground Zero" anti-nuclear poster hanging near his price-quotation screens.

His biggest political project is the Roosevelt Center for American Policy Studies, a liberal think tank he created in Washington, D.C., last year. He endowed it with $3 million and plans to give it an additional $2 million; its new top project is a campaign against nuclear proliferation.

Currently, he is circulating a "position paper" urging a new tax on wealth to help combat the federal deficit. Yet, in 1982, he paid only between $6 million and $8 million in federal income taxes because of the favorable treatment that commodity profits receive.

Mr. Dennis doesn't seem to have much trouble, though, reconciling his populist views with the raw capitalism of the commodity markets. "The market is a legal and moral way to make a living," he says. "Being a trader doesn't oblige one to be a conservative."

Mr. Dennis believes that his reputation among traders for being able to influence the market is vastly overstated. It is the result of a "a few sour grapes," he says, "just an excuse for some people who lose." Markets sometimes follow his moves, he suggests, only because he acts before others get the same idea. He adds that he makes most of his profits on just 5% of his trades, and says he has lost as much as $5 million on a single bad decision.

'Technical' Pricing Formulas

For roughly half of his trading, Mr. Dennis relies upon his $150,000 computer, which sometimes whirs all night analyzing the price history of various commodities. He does the rest of his trading by the seat of his pants often basing a decision on little more than a glance at a price chart. Information such as the outlook for gold production or the level of rainfall in Iowa he says, is "fluff," because by the time most traders learn of such conditions, the smart money has already acted and moved prices.

He relies instead on "technical" pricing formulas, based on the theory that certain cycles and patterns repeat themselves. He entered his big bond-futures trade, for example, when a chart showed that the contract price was reaching new highs by steadily smaller amounts, signaling a possible downturn. So he sold between 3,000 and 4,000 contracts at $72,281 each; he won't discuss any details, but if he repurchased the contracts within two days, after the prices had dropped, he may have turned a profit of more than $3.7 million.

To shield his moves from other traders, Mr. Dennis sometimes places his orders with "pit" traders who don't normally work with him. And he has had his computer programmed with long, randomly generated passwords designed to block a break-in such as the one committed against the North American Air Defense Command computer in the movie "WarGames."

"They'll get into NORAD before they get into our computer," he says.