

The Coke Bottle Trader

Written by Chuck LeBeau March 1, 2010

Back in the late 1960s, I was a young commodity broker at E. F. Hutton and Co. Our office was a brand-new high-tech office (for its time) that was considered the "flagship office" for E.F. Hutton.

In this office about 30 brokers and as many clients shared one very large boardroom, and there were no private offices. The brokers had elegant and expensive desks, and the clients had a comfortable seating area in the front of the office where they could hang out and watch the tapes and monitor our state of the art commodity "clacker board."

Sitting at my desk near the front of the boardroom, I could read my Wall Street Journal and keep track of the commodity markets without looking at the board. By just listening to the rhythm and tempo of the mechanical clicks as the prices changed, I could easily tell when anything important was going on, because the tempo of the clicks would increase noticeably.

Just in front of my desk were half a dozen comfortable sofas facing a high mahogany-panelled wall with the tapes and the "clacker board." A gallery of traders, mostly retired "old-timers" who were trading real commodities like grains and pork bellies, lounged around on the sofas plotting their charts and talking about life and the markets. They typically arrived early to get a good seat in their usual spot and then spent the day trading, exchanging commentaries and offering unsolicited advice to one another on any subject.

For the most part, they were a very sociable group who would take coffee breaks together and greeted each other on a first-name basis. These traders enjoyed the elegant atmosphere and treated our well-appointed boardroom as their private men's club. (Were you aware that women were not allowed to trade commodities back in those days? My, how times have changed!)

One of these "old-timers" kept to himself and was not interested in becoming a member of the friendly and often boisterous social circle. He usually sat quietly by himself, intently watching the price changes on the commodity board and holding an old glass Coke bottle up near his ear.

The vintage-shaped Coke bottle had been emptied many years before and now contained only a 12inch tube of bent and broken radio antennae, which extended awkwardly out of the top of the bottle.

Keep in mind that in the 1960s no one had yet heard of cell phones, so the purpose of this Coke bottle was a real mystery to everyone. When the trader would talk to the bottle from time to time, all the heads would turn, and the traders nearby would try to listen to the conversation. But the trader spoke very softly, and no one was able to eavesdrop on his conversations with the bottle.

The traders knew that the fellow with the Coke bottle was a client of mine, and eventually a representative of the group came to me and said they were extremely puzzled about this guy and his Coke bottle and asked me if I knew what was going on. I didn't know the purpose or meaning of the Coke bottle, but I was as curious as anyone was, and I promised I would find out. The next time the client came back to my desk, I promptly placed his order and then politely asked him about the Coke bottle.

With a serious expression and no embarrassment, he explained to me that the Coke bottle was an inter-planetary communication device that had been given to him by aliens. He said the aliens were very interested in our commodity markets and they often gave him trading advice from their various observation points on other planets. He said he had just had a message from Mars and they were buying soybeans, so he had also purchased soybeans. After revealing his unique trading methodology, he returned to his seat and resumed his whispered conversations with the Coke bottle.

As soon as I revealed my discovery of the meaning of the Coke bottle to the other traders, all attention was immediately focused on the Coke bottle trader and the soybean market. The soybean market proceeded to go the wrong way, and the trade from Mars was eventually closed out at a loss. The other traders had no sympathy and were quick to begin ridiculing the trader and to poke fun at his beliefs.

The next trade, however, turned out to be a big winner, and the Coke bottle trader went from sofa to sofa telling his story and pointing to the clacker board while waiving his Coke bottle and bragging about the profitability of his most recent message from outer space. Because he was making money now, his previous critics had to endure his bragging about his success on the current winning trade.

After a few winning and losing trades later, a clear pattern of behaviour began to emerge. The Coke bottle trader was ridiculed unmercifully on his losing trades but was able to get his revenge and the last laugh during the winning trades. This trader might have been a little bit crazy, but he wasn't stupid. He soon learned that his only defense against ridicule was to hold on to winning trades as long as possible and to quickly get out of his losses.

As long as he was sitting on his sofa with a winning trade, no one could tell him he was crazy and make cruel jokes about his messages from Mars. In fact, while he was winning he was quick to wander around the room and ridicule the methods of the other traders who were not making as much money as he was. He displayed the profits in his trading account as hard evidence of the validity of his methods and offered copies of his statements as irrefutable proof that he was getting valuable advice from his alien contacts. Who could argue when his advice from other planets was obviously working?

For a young broker, this experience and the firsthand observation of the Coke bottle trader who suddenly became profitable gave me my first important lesson about the importance of exits. I knew the entry signals had nothing at all to do with his success. His batting average was not any better than that of any other trader. However, this crazy old trader seemed to be able to make money consistently, while other traders with more "sanity" and more valid entry methods were losing.

Before long I was able to recognize that this man had become a successful trader simply by his efforts to avoid ridicule. He knew he was vulnerable during his losing trades, so he closed them out very promptly. His winning trades became his shield against the ridicule of the other traders, and he kept his winners much longer than before his unorthodox methods were revealed.

In the many years since this experience, I have encountered many claims of success for entry methods that probably have even less validity than the Coke bottle messages. I have learned to look only briefly at the entries of winning traders and to examine their exit strategies very carefully. I am very fortunate that more than 30 years ago I learned from the Coke bottle trader that success in trading depends on our exits and not our entries.