

A Dog with a Bad Case of Fleas: JPMorgan Chase & Co.

(Dec. 31, 2010)



Derivatives \$78.7 trillion



Assets \$2.1 trillion



Equity Capital \$176 billion

What in the World Are Derivatives, Anyway?

The easiest way to grasp the nature of the derivatives markets is to think of a dog with a bad case of fleas. The fleas, whose existence depends upon eating the dog, set up little empires buying and selling the dog's blood. They are so successful, in fact, that the dog begins to die. This presents the fleas with a real dilemma, but being clever little critters, they come up with a solution. Instead of trading the dog's blood, they switch to trading blood futures. Suddenly, their trading is no longer limited to the amount of blood they can suck out of the dog—they are now trading virtual blood, which by its nature is unlimited. Their trading empires expand as never before, making them rich beyond their wildest dreams—and who cares if the dog has died in the meantime?

—John Hoefle