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The Commodity Futures Man

By H. J. MAIDENBERG

In 1967, the economist Milton Friedman became convinced that the international monetary system was unraveling and that British sterling would be the first major currency to be devalued. He asked a top officer of a Chicago bank to let him sell short $300,000 worth of British pounds and offered to put up savings of $30,000 as cash margin. The officer refused, explaining that banks did not allow individuals to deal in foreign exchange.

Some three weeks later, sterling was devalued by 14 percent to $2.40. Mr. Friedman, who would have more than doubled his investment, told many Chicago commodity market officials and traders about his frustration and advised them to get ready for the instability in key world currencies he saw coming.

One who listened—and acted—was Leo Melamed, who earlier that year led a group that seized control of the Chicago Mercantile Exchange. When the rebels consolidated their control two years later, Mr. Melamed was chairman. What followed revolutionized the commodity futures industry.

"I listened to Professor Friedman and to the people who were running the big banks then," Mr. Melamed recalled during a recent interview in New York. "He made sense, the others didn't. So we set up the International Monetary Market at the Merc in '71 in order that everyone, including the little guy, could have a place to hedge or speculate in foreign exchange."

Last year, $449 billion of West German marks, Japanese yen, Swiss francs, British sterling, Canadian dollars, Mexican pesos, Dutch guilders and French francs were traded on the I.M.M., more than twice the 1976 figure. The division of the Chicago Merc also posted record volume in futures for gold and 90-day Treasury bills.

"The bankers and money-market men who dismissed us as screwballs back in 1971," Mr. Melamed said with obvious delight, "may also like to know that a Chicago Merc seat now sells for $150,000 and one on the I.M.M. for $75,000. The last I heard a seat on the New York Stock Exchange was going for $45,000."

The inevitable question one asks the likes of Leo Melamed is, if you're so smart, why aren't you rich? The short, 45-year-old commodity futures pit fighter has a ready answer: "I'm going to be."

Early last year Mr. Melamed left the chairmanship of the exchange to start something new in finance—a brokerage service that deals exclusively in foreign currency and financial-instrument futures for hedgers but not speculators. Although many brokerage houses handle these futures, none do so exclusively and all invite speculative accounts.

"It's not just the multinational corporations who are having their foreign earnings torn to pieces by volatile exchange rates," he said, "but also the little businessman in Skokie or Des Moines, who may import or export goods a couple of times a year. With all currencies going through the wringer along with interest rates, there is a need for financial insurance through hedging."

Despite his new business, Mr. Melamed is not totally divorced from the Merc, which is the nation's second biggest commodity exchange after the Chicago Board of Trade. He is a legal adviser to the exchange, an unofficial arbiter of disputes and general "walking rule book" of the trading pits.

The Merc today has its share of electronic equipment but it retains the air of a typical commodity exchange: arm-waving traders, dashing runners, screaming order-takers. Traders shout and make hand-signal bids for pork bellies (raw bacon slabs), or for unseen numbers of live hogs and cattle or frozen turkeys. Others are loudly and actively buying and selling lumber or frozen eggs or potatoes. Still others do business in gold bullion, 90-day Treasury bills or the buying and selling of major foreign currencies for future delivery.

Each trading ring is called a pit—one climbs or descends a few steps of the octagonal area in order to trade. One's position in the pit indicates whether one is buying or selling. It is a hectic world; 500 full and 300 limited members take part in it.

There have been suggestions that Mr. Melamed quit the chairmanship because he was, in the words of one member, "tired of being a monitor in a schoolyard full of unruly kids." He waves off the notion.

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"That guy must have been thinking of the days before our revolt of 1965-66," the lawyer, who bears a resemblance to Edward G. Robinson, declared. "It was wild. The members were mainly traders in pork bellies, live hogs and cattle and egg futures, but there was still the smell of onions."

The reference was to a move by Congress in the early 1940's to shut down what was then an openly corrupt market in onion futures. After two years of soliciting proxies to take control in late 1966, Mr. Melamed's forces instituted broad trading reforms and created new markets.

Mr. Melamed looks back on his four years as chairman as a time when "I did two smart things and one foolish thing."

He is proud of instituting reforms. He wrote a widely respected rule book for trading that brought order to the marketplace, and he created a $7 million fund to protect traders from the malfeasance of members.

As to his second point of pride: When Mr. Melamed became chairman in January 1967, a Chicago Merc seat sold for $90,000, which younger potential members couldn't afford. As he recalled, "Currency futures—financial instrument futures—these were new concepts. Many of the older livestock traders didn't care for such new-fangled ideas and didn't want to spend the money to start the I.M.M. The youngsters in the back rooms of banks and financial instrument brokerage houses knew what we were trying to create, only they couldn't afford to get in on it."

Mr. Melamed solved the problem by creating 150 memberships restricted to the new futures markets in foreign currencies, precious metals and Treasury bills. The price, in 1972, was $10,000 and members of the parent exchange could buy them for $100. As expected, relatively few Merc members seized the opportunity. The price is now a record $75,000.

To bring still more younger members into the market to participate in the newer commodity futures such as lumber, potatoes and frozen turkeys, an associate membership was formed in October 1975. The 150 seats were offered first to members of the two older groups at $20,000 each. An associate seat now sells for $34,000.

Last week, the Chicago Board of Trade, where the 1,402 seats cost $150,000 each, asked the Government for permission to create 150 special seats for trading futures in gold, Treasury bonds and commercial paper. The new seats would cost no more than $10,000 a year and were clearly aimed at bringing new blood into that exchange.

Many in the industry hold that the resultant infusion of young and aggressive members is responsible for the 27 percent increase in total volume on the Merc last year to 7.9 million contracts.

Mr. Melamed terms his biggest blunder the construction of the current exchange building in 1972: "We knew the moment it opened that it would be too small. They are now expanding the building by 40 percent at a cost that, to say the least, is far more than it would have been seven years ago."

Mr. Melamed became interested in the risky futures market, he said, because "I come from a family of risk takers. I wouldn't be alive today if my parents hadn't taken incredible risks."

He was born in Bialystock, Poland, in 1932; his father was a member of the City Council ("Melamed" means teacher in Hebrew). The Germans invaded in September 1939, and after harrowing escapes, the family fled through Siberia to Japan, where they left for the United States in 1941, just before Pearl Harbor.

Settling in Chicago after World War II, Mr. Melamed later went to the University of Illinois and then graduated from the John Marshall Law School. His introduction to commodities came when he worked part-time for Merrill Lynch as a pit runner for $25 a week while at law school.

After practicing law with a partner, George W. Fawcett Jr., (the Fawcett in Melamed, Wetterling & Fawcett, his new brokerage firm) for eight years and playing the futures market with some success, Mr. Melamed bought a seat on the Chicago Merc for $3,100 in the late 1950's.

It wasn't a matter of saving brokerage commissions, which then as now were relatively minor considerations in futures trading; a seat enabled one to participate directly in the pits. These trading areas afford traders an edge in that they can absorb a second-by-second "feel" of a market that outsiders cannot easily experience.

Mr. Melamed, who now lives in suburban Chicago with his wife and three teen-age children, was asked about "Wetterling" in his firm of Melamed, Wetterling & Fawcett. "One day some years ago," he recalled, "I received a letter from an Air Force fighter pilot who was studying international finance in his spare time. He said he had heard from friends in Chicago that we had created a futures market in foreign currencies and he wanted to enter that field as soon as he left the service.

"Now, a fighter pilot must have brains and guts, so he was halfway there. I liked what I read and we corresponded. Later, Jerry Wetterling came home and worked for E. F. Hutton and Shearson Hayden Stone as a futures trader. That was good, too, because he was able to learn a lot from them. He is 35 years old and we brought him in as a partner in our new firm."

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