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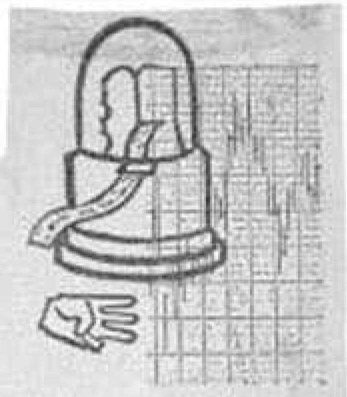

Big Bacon And Egg Man

By Donald E. L. Johnson

Leo Melamed reluctantly reveals that he made "well over $100,000 in 1964 and again in 1965, and I've had a good year" in 1966.

But the 34-year-old professional commodities speculator hastens to add, "I've had a year when I was a $20,000 loser. At that time (1960), it was the most I could afford to lose."

That was eight years after Melamed started trading eggs, butter, onions and poultry on the Chicago Mercantile Exchange, when he was a 20-year-old student at the John Marshall Law School.

The lure of speculating on commodities futures prices is generated by the opportunity to make a quick, large profit with a small initial capital investment. But Melamed's experience indicates that profits don't come easily to the professional commodities speculators. In addition to losing $20,000 in 1960, "I had a couple of years when I barely broke even. That was all part of the learning process."

The learning environment at the Merc was hardly serene. The trading floor of the Merc at 110 N. Franklin resembles a small high school gym packed to capacity with screaming, bouncing basketball fans frantically cheering their teams on to a city championship.

The Added Features

The only things missing are women and cheerleaders. Added features are the running messengers, trading rings and chalky college students marking price quotations on blackboards.

"The day I walked on the floor and heard the noise and felt the excitement in the air, I was fascinated," Melamed said. "There is a certain electrifying feeling—catching to visitors, even though they don't understand it. Many people just come to stand and watch."

Except for a few girls taking telephone messages, there are no women on the floor because there is a lot of body contact between traders as they jostle each other for attention. Exchange rules require the traders to "publicly" shout their bids and offers, and the traders supplement their public outcries with waving hand signals to make sure that their intentions are understood.

Anyone who has experienced the excitement of trying to strike it rich by playing the stock market, or by betting on the horses or on the numbers has had a fleeting taste of the tension, anticipation, and not the least, hope that captivated the young Melamed.

Leo Melamed (center) extends his hand with palm outward in offer to sell. Action is in pork belly pit at Chicago Mercantile Exchange. (Sun-Times Photo by Jack Dykinga)

He's Not A Gambler

But, he is not a gambler. He is a businessman who makes 60 to 150 trades a day, buying and selling porkbellies (unsliced, raw bacon), eggs, butter, live cattle and live hogs in lots of 25,000 to 30,000 pounds each. Each contract is worth between $10,000 and $15,000, but Melamed doesn't have to put up the full value of each contract he trades. He trades on a margin, which also can be called earnest money, of $300 for a live cattle contract to $500 for eggs and $700 for porkbellies.

Melamed is one of a dozen or so speculators who make profits by "day trading" for their own accounts. He seldom owns a contract for more than 48 hours, never for more than a week. Most of the Merc's 500 members are on the payrolls of brokerage firms and food processors. About 100 make their living filling customers' orders on the trading floor and trading for themselves on the side.

In any case, whether he is filling an order for himself or for a customer in New York, the floor broker can saddle himself with a personal loss of hundreds, and sometimes thousands, of dollars by making a simple mistake. Like buying when he is supposed to be selling.

From a trading standpoint, "You want to limit your losses, but to take as much profit as possible. It is very difficult to decide whether to take a profit or to take a chance of making more profit or losing part of it. A long winning streak can make you nervous, and a large profit can make you nervous. You try not to think about it."

The Nervous Tic

But the nervous tic is not uncommon among floor traders.

A series of successful trades is hardly as nerveracking as a series of losing ones. The amateurs usually throw good money after bad and "keep charging," observes Melamed, but the pros stay away for a day or two and pull in their horns until they can take a fresh look at the markets.

Until last Aug. 10, Melamed could spend his one-day vacations from the commodities markets at the office of the La Salle St. law firm of Melamed, Kravitz & Yerson, which he and his partners formed in 1959.

But Melamed quit his $25,000- to $30,000-a-year law practice to devote all of his time to speculating on commodities. He says that he will follow through on the cases that he accepted before he quit the firm, however.

The Final Choice

"It was a decision I had wrestled with for more than a year and a half. You're giving up security for insecurity. Most people go through life not really knowing if they are enjoying their profession or their chosen field. And if they find out that they don't like their field, it's too late to do anything about it.

"Fortunately, I found myself in a position where I could make a choice. I finally chose the field of speculating in commodities."

Obviously, one reason Melamed decided to speculate, instead of practice law, was the money.

Just as important, however, is "the daily challenge." By 8:30 each morning, he is in his office, which is in the same building as the exchange. He reviews his holdings in the various commodities markets and reads the latest government and private reports on the supply and demand of the commodities that he trades.

Then he reads the Wall Street Journal's commodities page, and reviews his price charts, which show what the markets have done in the past. Melamed uses the charts to project price trends.

After checking his charts, Melamed watches the openings of the New York potato futures market, the Merc's cattle and eggs markets and, finally, gets in on the 9:25 opening of the Merc's porkbellies market.

"From that point on — during heavy trading sessions—it's very difficult to keep track of the various commodities markets," he says. Whenever there is a lull in the pit, Melamed visits his trading floor office, which is one of about 50 study-type desks, enclosed on three sides and equipped with two or three telephones each. He updates his charts, watches the New York Stock Exchange ticker and, perhaps, makes a trade on the Chicago Board of Trade's soybean market.

Like Digging Ditches

After the market closes at 1 p.m., traders get together, correct errors, confirm trades and try to determine how they did.

"I am far from the biggest trader on the floor. I still marvel at how they (big volume speculators) keep track of where they stand.

"By the time the trading is over, I would say that a trader has put in a full day, equivalent to eight hours of digging ditches. It's very exhausting."

Not everyone does as well as Melamed. For one thing, few have started with the expert coaching he received from Merrill Lynch, Pierce, Fenner & Smith floor brokers back in 1952.

He got his introduction to the exchange when he answered a Merrill Lynch ad for a $25-a-week floor messenger.

Some time later, he started trading with $200.

Like most beginners, "for a while I was following other people's advice. I lost the $200 and had to borrow another $100 to start again. I think I'm glad that I lost at the start."

A Home In Skokie

In 1955 he did so well trading commodities that he was able to put $15,000 down on a $35,000 home in Skokie. "In order not to lose it, I sunk it into real estate. That was still my learning period and I still felt that I wasn't a pro yet." He started feeling like a pro three or four years ago.

In any event, Melamed, who started with virtually nothing, is living slightly better than he would be if he were depending on his income from his law practice. "My concept is to not show my wealth."

However, last summer he broke down and bought a $17,000 boat. "My family (his wife, Betty, and three children, Idelle, Jordan and David) wanted it and I wanted it. So we did it."

Born in Poland, Melamed and his parents were one of two families to escape from Bialystock before the advancing Nazis in 1939. His father, who is now teaching in the Chicago suburbs, was a city official and the author of a textbook used in math classes in Poland.

Melamed, who was elected to the Merc's 12-man board of governors last week, attributes his success to the opportunities offered by the Merc's markets and to "the American system."