

Faces Behind the Figures

"... a Lot To Learn"

SPECULATING in commodities gave Leo Melamed an ulcer, but it also made him a pot of money (*FORBES*, Jan. 15, 1972). Now Melamed is speculating in money, too. And his ulcer has developed an ulcer.

Early last year, Melamed retired as chairman of Chicago's Mercantile Exchange to help found an affiliate, the International Monetary Market. Like the Mercantile Exchange, the Monetary Market is a futures market. It's the first such market in the world.

It's the first because, until the collapse of the Bretton Woods and later the Smithsonian agreements, it wasn't possible to deal in money futures. Fluctuations in the relative value of currencies were held within bounds too narrow to make it profitable.

When it comes to speculating in pork belly futures, Melamed is a whiz. As for money, "I must admit," says Melamed, "I haven't done too well. I have a lot to learn."

One of his biggest mistakes was to sell the Swiss franc short. "The Swiss franc was going up and up," Melamed says, "and I figured it would soon reach its peak. I was wrong."

Speculating in money futures, he explains, is more complicated than speculating in commodity futures, because the speculator must take into consideration political as well as economic factors.

Despite this, in the months since May 16, 1972, when the International Monetary Market opened its doors on the same floor as the Mercantile Exchange, 650 individuals and 80 banks and brokerage houses, including Merrill Lynch, Bache, W.E. Hutton and Hornblower & Weeks, have joined it. Memberships, which originally sold for \$10,000, are now bringing \$15,000.

So far, about 244,000 contracts have been traded, worth approximately \$34 billion. Melamed admits this isn't much compared with the amount of foreign currencies banks handle, but trading in money futures, he points out, is a brand-new idea.

He thinks it will catch on because of the doldrums in the New York Stock Exchange. Says Melamed: "People are disenchanted with the stock market. You can't make any money there. Trading in money futures is a terrific risk, but, if you guess right, the rewards can be terrific. A man who had guessed right on the Swiss franc could have made \$24,000 on

an investment of just \$2,500."

That's because there is tremendous leverage in the money futures market. If a man wants to buy a contract for £50,000, the minimum contract for pounds at present, he needs to put up only the dollar equivalent of £4,000; his broker will guarantee the rest—not lend it, guarantee it; he doesn't have to pay any interest on the extra £46,000.

If the pound goes up, he can pull out his profit the very next morning. If the pound continues to rise, he can pull out his profit every morning. If the pound goes down, his broker may ask him for additional security. He may then decide he has guessed wrong about the pound and cancel his contract, thus limiting his loss.

At present, the minimum contracts a trader can buy or sell are fairly

large: £50,000, 500,000 deutsche marks, 500,000 Swiss francs, 50 million lire, 200,000 Canadian dollars, 1 million Mexican pesos, 125,000 Dutch guilder, 25 million Japanese yen. On June 1, the Monetary Market will cut all these minimums in half, except for the peso and the guilder. Melamed wants to get the small investor the stock market has lost.

He has a word of advice for would-be speculators in money futures: The dollar, he says, is coming back. "If you think we have problems, look at Europe. Inflation is even worse in Europe than here. And the Europeans are in for at least five years of labor troubles."

Before you call your broker, remember what Melamed said. When it comes to money, he said, "I have a lot to learn." ■

Melamed of International Monetary Market

