

By MARGARET LAWS

Vanguard of the Futures That's Where Leo Melamed Has Put the Chicago Merc

CHICAGO—Merrill Lynch, Pierce, Fenner & Smith—what an impressive name for a law firm! So thought law student Leo Melamed when he went hunting for a part-time job back in the 'Fifties. He claims that he never realized his mistake until he reported for his first day of work. He was sent to the Chicago Mercantile Exchange, where a Merrill Lynch commodity trading desk had a vacancy for a floor runner.

"That's how dumb I was," exclaims the man who, as chairman, past chairman, and currently special counsel to the Merc's Board of Governors, has been in the driver's seat at the Merc for nearly 15 years. During that stretch, the exchange

Not only did Melamed's currency futures market succeed, but it also became the precursor of a whole spate of futures in other paper instruments.

has emerged from relative obscurity to lead both the commodities and capital markets to financial innovation.

Whipping his top-of-the-line Porsche through Chicago's rush-hour traffic with an aggression touch that betrays his days as an amateur sports car racer, Melamed makes it quietly evident that his self-deprecation is not meant to be taken seriously. He is a man possessed—self-possessed, that is. A wiry man who stands, maybe, 5'6", Melamed's ego soars at least twice that height. And per-

haps because so much of that ego is wrapped up in the exchange, which he unselfconsciously refers to as "my child," Melamed shows no sign, despite frequent gossip, of stepping down from the Merc's administrative totem.

In financial circles, Melamed is best known as the father of financial futures. That particular child, the International Monetary Market division of the Merc, will be 10 years old this May. It offers currency, interest rate and gold futures contracts. Recalling the years when the industry laughed at his efforts to get an initial market in currency futures off the ground, Melamed points out with supreme satisfaction to the way traders *these days* talk about financial futures trading volume overtaking contracts in conventional commodities like wheat and soybeans within a few years.

Not only did Melamed's currency futures market succeed, but it also became the precursor of a whole spate of futures in other paper instruments, ranging from U.S. Treasury bills and bonds to bank certificates of deposit and government-insured mortgages, from Eurodollars through many more exotic fauna still to come. Other exchanges ate their words and scurried to find room to house the new-fangled pits. The latest figures from the Commodity Futures Trading Commission show contracts in financial instruments and foreign currencies accounting for some 25% of total commodities trading volume, compared with a minuscule 2.4% share as recently as 1977. By comparison, grains, the traditional bastion of futures trading activity, have shrunk from a 51% share of vol-



Merc's Melamed: In the driver's seat.

ume to 40%. And total commodities futures trading activity more than doubled during the same span.

Melamed stepped down as chairman of the Merc at the end of 1976. But, although other photos have been added to his in the rogues' gallery immortalizing past chairmen that graces the Merc's reception area, it's no secret that Melamed has had much to do with the election of his successors. Nor would it surprise anyone in the Windy City

to learn that the incumbent meets daily with Melamed in his capacity as special counsel to the CME's Board of Governors.

These days, Melamed devotes half his 12-hour working day to Dellsher Investment Co. Inc., which he formed in 1966 to handle his own trading. The firm now boasts a payroll of 30-35 and has expanded over the years to manage trading activities for institutional clients. The other half he devotes to

Merc business, immersing himself in all facets of policy. He most recently played an instrumental role in organizing the Merc's newest division, the Index and Options Market (IOM), which stands ready to trade futures contracts on stock indices and commodities options as soon as regulatory hurdles are cleared.

The IOM is one of two exchanges currently awaiting an okay from the CFTC to launch futures contracts based on stock indexes such as the Standard & Poor's 500 (to be offered by the IMM) and the NYSE index. The Kansas City Board of Trade scooped its larger competitors, beginning trading futures on the Value Line Index. Other related futures contracts still in the talking stage include ones on the producer price index, prime rate, other stock market indexes and the money supply.

Several commodities exchanges are also awaiting CFTC approval to start up pilot programs in options on various financial instruments. But the nation's options exchanges, under the jurisdiction of the Securities & Exchange Commission, are also champing at the bit for a chance to burst into that arena, so the competition promises to get hotter and heavier. Melamed, according to current CME Chairman John Sandner, has been less than enthusiastic about the Merc's prospects in commodities options. For his part, Melamed says "options will work in some commodities—in sectors where futures have not provided adequate [price] insurance. But as yet, no one knows which."

The raison d'être of all these new financial instruments, from the original currency futures onward, is, of course, the uncertainty and volatility which riddle contemporary capital and equity markets. Although the

futures industry has now latched on to this concept with a vengeance, it was slow to grasp that the world was changing into a place where today's Treasury bond could no more be counted on to bring a sure price tomorrow than this month's sugar prices can reliably predict next month's.

Melamed says he stumbled onto the concept himself "by chance." In the late 'Sixties, his basic overhaul of the CME was complete. The small exchange specializing in egg contracts had had its antiquated rule book updated and its staff expanded. "I do believe I helped create an atmosphere among exchange members," he comments. Others credit him with laying the groundwork for the growth that saw the Merc quadruple its share of commodities trading volume to 33% in 1981 from the mid-'Sixties level.

Because the egg business was dwindling in the late 'Sixties, Melamed recalls, he "realized that it was imperative for the Merc to expand if it was going to survive. I just didn't know into what." In 1970, Melamed and a couple of associates, noting the symptoms of what would later be called the British Disease, felt that the U.K. wouldn't be able to sustain its then-fixed exchange rate. Shorting the pound was an obvious play. But "we discovered that there was no real way to do this except in the inter-bank market," he says. "And that was difficult to do because, if you didn't have any commercial reasons, the banks weren't likely to be very helpful."

The speculators did eventually manage a profitable trade but, more significantly, Melamed's curiosity was piqued. He threw himself into reading "everything I could get my hands on" about contemporary finance. By early 1971, he had crossed paths with University of

Chicago economist Milton Friedman, who pronounced that yes, the stable world of the Bretton Woods currency system was doomed. "It all added up to a currency crisis," remembers Melamed.

Figuring that world leaders would refuse to admit that the system was broke, Friedman advised that it would be a couple of years before the house of cards came tumbling down. When it did, decided Melamed, the CME would be in a position to profit from the pieces. A committee was formed, Friedman conscripted to write a paper, "The Feasibility of Currency Markets" and Melamed took his show on the road to Washington and Wall Street.

Wall Street jeered and Washington yawned. "Morgan Guaranty laughed at me and treated me like I had snake bite," Melamed smiles. "Everyone said I hadn't a ghost of a chance. Everyone except Friedman."

In Washington, luminaries such as Arthur Burns, George Shultz, Paul Volcker and Herb Stein heard him out. But to Melamed's surprise, "No one really cared. They said if I could get the contract launched, they wouldn't oppose it."

Then in December 1971, Bretton Woods took the world by surprise and collapsed. Melamed speeded up his plans by one full year. Six months later, on May 16, 1972, the International Monetary Market opened for business with its foreign exchange futures contracts.

"For the first three years," admits Melamed, "the new contracts didn't do that well." But Melamed persevered, cajoling traders into support for the new instruments, and by 1975, the new market was off and running. Of course, by this time, the Chicago Board of Trade had noticed that the ship was leaving shore and opted to jump on board, offering GNMA futures,

and later Treasury bond instruments. In 1980, the Big Board attempted to get in on the act with its own futures exchange, the NYFE, which is struggling, at best. Currently, the IMM trades roughly 60% of the volume in financial futures, and offers the most diversified range of financial contracts of the three exchanges.

Melamed is the first to admit that sooner or later someone else in the industry would have grasped the opportunities inherent in the brave new world of international finance as it evolved in the 'Seventies. He is visibly proud of his achievements: he—and his parents—have come a long way, literally and figuratively, since he fled a small town in western Poland after the 1939 German invasion.

The only aspect of his life about which Melamed is less than voluble is his own personal wealth. His only comment: that he has done "very well." He's not reticent, though, about agreeing that his driving and demanding style hasn't exactly made him universally loved, by members of his own exchange or by rivals at others. In fact, he gets a kick out of his reputation for unbridled use of both carrots and sticks when he wants something done.

Not content to rest on his laurels, Melamed gives every indication of believing himself indispensable both to the welfare of the CME and the industry as a whole. But, he confesses, one thing could possibly woo him away from the pits—a second career in writing. His first novel, a science fiction saga, has gone through three drafts. Inhaling deeply his umpteenth cigaret in a few hours, he confidently predicts: "Steven Spielberg is going to direct it."

Then Leo Melamed guns his Porsche and roars away into the night. ■