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12 MINDS THAT MADE THE MARKET

In praise of those who've had the greatest influence on how we invest today

BY ADAM SMITH

THE TRILLION-DOLLAR GENIE

LEO MELAMED

WHEN THE Chicago Mercantile Exchange began the trading of currency contracts in May 1972, its chairman, Leo Melamed, hoped it would save the exchange, which was in serious trouble. Wall Street barely noticed. What did a bunch of pork-belly traders know about currencies? But Melamed's innovation had an enormous impact. The genie he released girdles the globe. From currency contracts, the Merc went to T-bill contracts, and then to the S&P 500 contract, whose dollar volume today exceeds that of the NYSE. The ease of buying and selling S&P contracts itself changed money management. Would you rather have a T-bill or the market? You could change your mind instantly and easily hedge a portfolio. The introduction of the S&P contract in 1982 coincided with the beginning of the long bull run, and may have given the market an extra thrust. It also made Chicago more of a financial rival to New York City. Critics said the Merc had commodified stocks. "I don't accept the pejorative connotation," Melamed said. "It's certainly more efficient, and the idea that index contracts are speculative has been put to rest." But the revolution created by the market in derivatives and indices might never have happened except for a problem in onions.

The Chicago Merc has been Melamed's passion since the first day he saw the trading pit as a runner for Merrill Lynch. Melamed came to Chicago by a circuitous route. Born in Bialystok, Poland, to parents who were teachers, Melamed had to learn six different languages in two years as the family was swept up first by the Nazis in the early days of World War II, and then by the Russians. The family got a visa in Lithuania from the consul Chiune Sugihara, the "Japanese Schindler," who is credited with saving some 6,000 Jews by granting them visas to Japan. The Melameds trekked across Siberia to Japan, and left for Chicago just before Pearl Harbor. "My training was very practical," Melamed says. "I saw the Polish zloty, the Lithuanian lit, the mark, the yen, and finally the dollar—but the real value was what the currency would buy, not what a government said. In Europe, the black market was the real market." Before Melamed graduated from law school, he borrowed $3,000 for a seat on the Merc and began trading while he practiced law. In 1967, he was elected to the board. He became chairman in 1969.

"I was the candidate of the reform crowd," Melamed said. "The old crowd had played so many squeezes on onions that the government banned onion trading. I instituted a rule book, with rules enforced. And we had to diversify. We tried scrap steel, shrimp, and potatoes, with little success. Meanwhile, I was reading everything by Milton Friedman, who said fixed exchange rates were over, Bretton Woods was finished. I took the first currency contract to him, and he said, 'Wonderful! Do it!' and his feasibility study made him the godfather to the project."

Melamed set up trading of S&P contracts as the International Monetary Market, within the Merc, so that traders in financial contracts wouldn't rub elbows with the pork-belly traders. When the British opened their futures exchange in 1980, Melamed was an adviser, and London was followed by Paris, Frankfurt, Sydney, and the rest of the world. Anticipating the electronic globalization of markets, Melamed worked with Reuters to set up Globex, the electronic trading of futures.

Today the nominal value of financial contracts is $667 billion a day, and the trading of contracts is part of the world financial infrastructure. "Who wants to trade onions anyway?" he said.