

Perspective

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ON THE RECORD

Former Merc chairman
LEO MELAMED
talks about the stock
market and
the law of gravity
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By R.C. Longworth
TRIBUNE SENIOR WRITER



Tribune photo James F. Quinn

Leo Melamed

former chairman of the Chicago Mercantile Exchange

Leo Melamed, chairman of global futures company Sakura Dellsner Inc., virtually invented the international financial futures market and made Chicago its home. Born in Poland in 1932, he fled the Holocaust with his parents across Russia and Japan to Chicago. Now 64 and the author of a new autobiography, "Escape to the Futures," he was interviewed in his Wacker Drive office while barking sell orders over a speaker phone to associates on the trading floor.

Q: Let me ask the question everyone has: What's going to happen to the stock market?

A: My opinion is that the market is going to go south. No one really knows, so I base my answer on experience and some knowledge. I really think the stock market has gone too high too fast too soon. There hasn't been a sufficient retrenchment for some time. [It's been going up because] people put their money into it because they couldn't get a good return in fixed income investment or anywhere else.

There was kind of a winning cycle. You do it and it worked. Your friend did it and it worked. For a while, that made sense. But if you overdo it, the risk reward isn't there. But I don't know whether it will [come down] in a week or a year.

Q: If it falls, say, 20 percent, as it did in 1987, it will still be above 4500. For long-term investors, isn't this a good base for a recovery?

A: It's OK to sit out a break, if it's only 10 percent. But what if the break is 30 percent. Then it might take eight years to 10 years to overcome. Are you willing to sit and wait for eight years?

Q: What's the difference in the market between now and 1987?

A: Like day and night. Then the Cold War was still going on. Today there is truly a market economy in virtually every nation of the world. I am a lot more bullish on the world than in 1987. I have a capitalist philosophy, so I think the world is better off than in 1987. Also interest rates were dangerously high in 1987. You don't have that today. You don't have governments trying to run currency markets. Currency values are being determined by the free markets.

What you do have is a different danger. The market has gone in one direction without a significant retracement for six, seven, eight years. That's the danger. The market has outrun its values.

Q: The law of gravity?

A: The law of gravity.

Q: After 1987, reforms were instituted, some proposed by you—for instance, the "circuit breakers" (the temporary halts in trading that are imposed when the Dow Jones industrial average rises or falls 50 points in a day, to promote a more orderly market.) Will these reforms prevent another crash like Black Monday in 1987?

A: I want to think that we are better placed since 1987. Circuit breakers have been tested since 1987 and they worked very well. But this is the \$64 million question. Will they work in crashing conditions? I think so because they will stop the market from going in a chaotic way. But they never were intended to stop reality. If the market wants to fall 508 points, it'll happen. So I don't have a false sense of security.

Q: In 1987, there was a rivalry, even hostility, between LaSalle Street and Wall Street. The New York financial community looked down on Chicago traders and even blamed them for the 1987 crash. Is this hostility still there?

A: It's really never going to cease. Chicago is still viewed as a second city. But the competition between the markets is a lot better today and is better under-

stood. 1987 proved to the New York financial community, to the temples of finance, that we in Chicago have a market that is very meaningfully used by their own community and that it impacts their markets [by providing financial instruments enabling stock traders to hedge their risks.]

The one-market theory [that New York and Chicago constitute one big market, not two] is true. Rodney Dangerfield would have said, we got respect now. We've got a wonderful risk management tool called futures. We're not a mom-and-pop outfit. That lesson [in 1987] made us respectable and equal.

Q: In your book, you suggest the open outcry system—the clamorous but time-honored Chicago trading pits—is doomed by technology, that all trading will be from screens, like you're doing here in your office.

A: I didn't use the word doomed. But technology demands serious applications in the transaction process. Just look where I'm sitting and what I'm doing. Exchanges can't just give lip service to it [technology]. Railroads forgot they were in transportation and only wanted to do [business] by land. They could have owned the airlines but they didn't, and look what happened. I've never been on the side of shutting off open outcry. That would be incredibly stupid. But, 10 years from now, it's conceivable that we'd be trading primarily on screens. Remember, since 1987 there's been no new exchange created in the world that uses open outcry. They're all electronic. If we were to create our market here today, would we use open outcry? Probably not.

Q: Won't this take all the atmosphere and glamor out of trading?

A: You're never going to change the human factor. Humans will always have the central role.

Q: In your spare time, you write science fiction (he has published one science fiction novel, "The Tenth Planet," and is working on a sequel). Why?

A: As a high school student, I found Jules Verne and was brought to science fiction. I never left it. But truth is stranger than fiction. I live in a world full of surprises, yet they're real. If you live and keep your eyes open, you run into things that you'd say couldn't happen, yet they happen. In Moscow, in 1990, I rang the bell to open the Moscow Commodity Exchange. This was on Gorbachev's invitation, under a Communist government, in Moscow, which I last saw as a boy fleeing the Nazis. If that's not science fiction, I don't know what is. We live with wonderment all the time.

Q: In your book, you name other refugees from your hometown of Blalystok, Poland, who have struck it as rich as you have—men like Chicago property magnate Sam Zell or the international lawyer Samuel Pizar. What is it about the immigrant experience that so often propels one toward such extravagant success?

A: It's not just the immigrant experience itself, but there is a special element that can be attributed to immigrants. They find themselves with an opportunity that wasn't in the cards for them. You get to a new country, having got there by overcoming critical difficulties, and you realize that you've got this opportunity that you never thought you'd have, and you think, don't blow it. Use it. Do something with it. That's how I felt.

I'm beholden to this country. To this day, I'm a patriot. You can't say anything bad about America to me. That's my bottom line. I know there is both good and bad, but this is the greatest country in the world.

An edited transcript.