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With currencies crumbling and global recessions seemingly lapping at the shores of the United States, what's a nervous investor to do? Perhaps seek out the counsel of a Polish-born immigrant and science fiction writer whose foresight and love of risk helped make Chicago a financial powerhouse.

Leo Melamed, chairman emeritus of the Chicago Mercantile Exchange, helped transform the institution from a quiet place for agricultural trading into one of the world's leading financial markets. Along the way, Melamed, 66, has become a godfather to many traders at the Merc_someone to be consulted, emulated and not to be crossed.

Melamed, chairman of the futures brokerage Sakura Dellsher Inc., discussed with the Sun-Times his view of today's volatile markets.

He spoke about the bailout of the hedge fund Long-Term Capital Management, which promised wealthy investors huge returns but lost hundreds of millions of dollars, and the fate of Chicago's futures marketplace, where the "open outcry" trading style is under attack by electronic trading systems. He also touched on the collapse of a "common clearing" initiative, a plan that called for the Merc and the Chicago Board of Trade to merge their functions for guaranteeing payments of futures obligations.

Melamed also said he's two-thirds of the way done with his second sci-fi novel, a sequel to The Tenth Planet, published in 1987. Excerpts from the interview follow:

Q. There's a lot of fear in the marketplace right now. People read about hedge funds going under and wonder what's next. Is that sense justified?

A. The issue has been over the last three or four years that the markets have had a sense of irrational exuberance just like (Federal Reserve) Chairman (Alan) Greenspan indicated a couple of years ago. . . . Those who are market players know that that implies that at some point the market's going to react to that exuberance in a very negative way. When that happens it will unleash forces of all kinds that one cannot control. One of them was LTCM (Long-Term Capital Management).

Remember, when someone is willing or can give you 42 percent return on your money, what's he doing, drugs? I mean, that's a lot of return and you've got to question the rationality of what that investment is all about.

It seemed like it was a market without danger. You just gave somebody the money whether it was an investment banker or an LTCM and you made a return. People even started talking about throwing their Social Security money into the market; it seemed such a sure thing. That would be a terrible thing. That would be devastating.

LTCM, while its investment strategy was not so terribly unusual, its ability to get credit was highly unusual. I don't know of anybody else who could have pyramided a 25-1 ratio on credit (to equity). We get credit, in our business if we get 2 1/2, 3 to 1, we're doing good.

Q. Does LTCM show that over-the-counter markets need to be regulated?

A. I'm going to have to squirm to be on the side of more regulations. . . . Unfortunately, it does prove that they deserve the same kind of regulatory environment that futures markets have.

Q. Do you see any parallels with the 1987 crash or even 1929?

A. I really don't want to be a doomsayer, but I certainly have a dose of realism in my market stance. . . . We were going up too high. The irrational exuberance had overtaken rational thought. . . . Does that mean we will have ultimate crashes or depressions? I hope not. I, however, don't think that it's over yet. I think that the current rally is a healthy thing. I think that it will stabilize the market for a time. But I think after that the world isn't going back to irrational exuberance very quickly, so I think there is more (trouble) in store down the road.

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Q. Look ahead a few years. Will the Merc still have its two trading floors? What's the future of open outcry?

A. It has been clear to me the last seven or eight years that electronic trading was going to be the wave of the future and an enormous competitive force to the open outcry system. I, therefore, urged the Merc throughout to be wary of that reality and to prepare for it. . . .

Some markets do not lend themselves to electronic trading easily. We know that in options markets right now there isn't a good technology for electronic trading yet developed. . . . The answer is we have to have both. We cannot live purely blindsided on an open-outcry environment without having an equally vibrant electronic system. These two systems could co-exist for a long time. . . . We must bring technology to the floor so it can compete better.

Q. There have been attempts to make futures investing appeal more to retail investors? Are these appropriate and what type of investor should not try futures?

A. First of all, you have to have risk capital. That excludes, I think, a lot of players. . . . You cannot use money that would cover your mortgage or your alimony payments and play in the market. . . . But that still leaves open a lot of people. . . . They can use our markets in a number of ways.

Q. The Chicago Board of Trade voted down a common clearing deal with the Merc. Is this initiative dead?

A. I think it's fairly dormant because, you know, we spent so many man-hours and so much time, I think two or three years, at trying to put that together, and I think the Merc did all it could to go forward and compromise and move that along. Now, at this point, having had it rejected, I think it took the wind out of those sails. . . . There are other ways to accomplish a larger clearing capability than the Merc's stand-alone capability, and I think that's something we will look at.

Q. Common clearing was supported by FCMs_large brokerages known as futures commission merchants. They've threatened to take their business elsewhere. What do they do now?

A. I think that's really an overstatement and maybe a tactical maneuver. Say what you will, the exchanges have given the FCM community really a wonderful mechanism. And the clearing house at both the Board of Trade and the Merc is strong. There are no failures. We protect their money. . . .

An FCM's clearing cost is, per se, extremely low and very favorably placed to them. They have other cost factors in doing business because open outcry is a manual labor kind of thing. . . . But the actual clearing is not very costly. . . . I'm an FCM, so I know chapter and verse how much it costs me to clear and how much it costs me for the rest of the operation. . . .

Q. What stocks do you like?

A. This rally is made to take some profit out of the market. Hold on to IBM and stocks like that. But you should get out of any stocks that you're not too sure about.