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HIGH/LOW

FATHER FIGURE

HALL OF FAME

Financial futures are the pistons that fire the global economic engine, the life force of traders everywhere. Leo Melamed invented them

BY LEAH McGRATH GOODMAN

FLYING DOWN CHICAGO'S South Wacker Drive behind the wheel of his jet-black Porsche, Leo Melamed is a study in contrasts -- not to mention a hell of a driver.

His phone is ringing, his radar detector is beeping, but the 74-year-old never takes his eyes off the road. The esteemed chairman emeritus of the Chicago Mercantile

Exchange floors it, swerving around concrete pylons and changing lanes. He's late to a stuffy cocktail party, and lost. No big deal: He enjoys the ride and improvises an alternate route -- which is, incidentally, just the kind of life path that has made him a living legend in the world of trading.

As a veteran specialist, Melamed has

test-driven many new markets since the 1960s, but his contributions to the financial markets themselves, and not so much his ability to slay them, are what make him so widely admired. He's credited with being the father of financial futures, having had the foresight to view the market in a way that changed its history despite a chorus of Wall Street naysayers. He's not merely an accomplished trader -- he might be the reason why you're trading. In 2005, the notional dollar value of all financial futures traded worldwide was estimated at roughly \$1 quadrillion.

From humble roots, this poor Polish immigrant rose quickly through the ranks of the CME, becoming at age 37 its youngest chairman. A few years later, in the early '70s, he brazenly transformed the struggling meat-and-dairy exchange into the world's largest financial marketplace. Then, not content with having revolutionized trading once, Melamed did it again in 1992 by unveiling Globex, the world's fastest and busiest electronic futures market. Globex started with thousands of trades a day; it now tallies millions.

For his unparalleled vision and boundless pioneer spirit, *Trader Monthly* inducts Leo Melamed as the tenth member of the Trader Hall of Fame. "One can't imagine what the market would be like without Leo," says Roger Corrado, vice chairman of the New York Board of Trade. "As the founder of financial futures, he's a father figure for us all."

Born into a Jewish family in 1932 in Bialystok, Poland, Melamed spent his early years fighting for survival, as his family fled the Nazis and the KGB across Europe and Asia in a dramatic escape worthy of a Hollywood summer blockbuster. "My parents, who were Yiddish teachers as well as anti-Communists, never knew whether they were at the end of the road or not," Melamed says. "As a child, I could see the constant fear in their eyes."

The Melamed family, marked for extermination, narrowly dodged the authorities on numerous occasions. As a child, young Leo watched German and, later, Russian officials ransack his childhood home in search of his father, a city councilman.



CHICAGO BULL: Leo Melamed can rest easy knowing his place in trading history is secure.



PHOTOGRAPH BY CHRIS LARK

The family escaped to America, settling in Chicago, where Melamed's father found work as a teacher. Leo, an excellent student, was introduced to trading in a roundabout way while attending The John Marshall Law School in Chicago in 1953. He answered an ad placed by Merrill Lynch, Pierce, Fenner & Beane, thinking it was a law firm. In a twist for the ages, he was offered a job as a runner on the floor of the CME, at the time a sluggish egg-and-butter exchange operating mostly in obscurity. "I took one look and fell instantly, madly in love with the trading floor," he recalls.

He graduated from law school at age 23 and started his own law firm with a friend, tackling any case he could get, from real estate to bankruptcy. But he lived a double life. For the next six years, he divided his time between the courtroom and the trading pit, following futures markets as a local in eggs, pork bellies and potatoes. During that time, he went broke twice from trading.

He needed more focus. So, in a move that devastated his parents, he ditched the legal grind for a full-time trading career, kick-starting a meteoric rise that would soon earn him plaudits as one of the most respected financial thinkers of the twentieth century. "Nobody ever lost by being long on Leo," the late Nobel laureate Merton Miller once quipped.

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Melamed's legal background impressed the CME's top brass, and his ability to articulate ideas won him the support of his associates. That helped him push for changes to modernize the old-guard market, paving the way for a seat on the board and, later, the chairman's spot.

In 1971, two years into Melamed's CME chairmanship, President Nixon announced that the U.S. would ditch the gold standard,

letting the dollar float freely against other currencies on the global monetary market. While some economists cheered, most Americans had no idea what was going on. Melamed did. If supply and demand could dictate the value of the dollar, he reasoned, that wasn't much different from butter or pork-belly markets. But if offering "dollar futures" — or some vehicle to speculate or hedge on the purchasing power of the greenback — was so logical, why hadn't anyone else thought of it? "I wasn't sure if there was an obvious reason why it wouldn't work," he says.

Melamed shared his plan for financial futures with renowned economist Milton Friedman, who met him on a hot day in July 1971 at the Waldorf-Astoria in New York. Their summit that day sparked a lasting friendship. "I'll never forget what he said when I told him about [financial futures]," Melamed recalls. "He stood up, then I stood up, and he said, 'What a wonderful idea!'"

Melamed, a science-fiction buff (who would later publish a novel, *The Tenth Planet*), had no problem explaining the far-out concept, but CME executives — not to mention the rest of the world — fretted it couldn't be done. Nonetheless, by late 1971,

the CME took a chance, establishing the International Monetary Market, which offered a slate of seven currency futures, which began trading on May 16, 1972. That day, 333 contracts changed hands, including issues on the Swiss franc, Mexican peso and British pound — not a grand showing by today's standards, but a big deal 34 years ago. The contracts were precursors to the CME's futures on short-term interest



THE RINGER: Melamed (right, in 1972) prepares to clang away on a miniature replica of the Liberty Bell.

rates, the S&P 500 and Eurodollars — the highest-trafficked contract ever devised. Eurodollar futures and options account for some \$2.1 trillion worth of traded contracts a day.

Melamed played the role of chairman at both the CME and IMM, merging the two exchanges in 1977. Retirement apparently being a relative concept to him, Melamed stayed on as special counsel to the board until 1987 and as chairman of the executive committee until 1991. His tireless efforts during that time to keep the CME ahead of its competitors by championing electronic trading and creating the Globex system brought the exchange vast riches and laid the foundation for its enormously successful 2002 IPO. Since then, CME shares have climbed from \$35 to around \$500, and the exchange has gone from trading millions of contracts a year to billions.

These days, Melamed, who attempted a "second retirement" in 1991, maintains offices at the CME as chairman emeritus and promotes the exchange with evangelistic zeal. He still trades on Globex — particularly currencies — and travels to Asia often to promote the exchange. In late April, he was honored by CME executives and a rock-star list of industry luminaries with the exchange's Fred Arditti award for innovation. But Melamed predicts innovation has only begun to galvanize the financial world. "We have the potential to devise instruments dealing with global warming, even risk management for health and retirement," he says. "This could give financial engineers a nirvana of potential. I don't believe we're anywhere even close to the limits." ■