

# Futures

The magazine of commodities & options

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What 60 leaders  
predict for the last  
half of the 1980s

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Best Trades in 1985

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Leo Melamed



## What Leo Melamed expects



Although the futures industry has many excellent leaders, none has been more influential or dominant in the last 15 years than Leo Melamed.

After fleeing his birthplace in Poland in 1939 during its German occupation, Melamed arrived in the United States in 1941. He attended schools in Chicago and wound up as a runner at the Chicago Mercantile Exchange (CME). It was a part-time job while he went to law school. He claims he thought he was joining a prestigious law firm when he took a job with Merrill Lynch, Pierce, Fenner and Smith.

Melamed practiced law in Chicago for 10 years until 1966 when he founded Dellsher Investment Co. and became a full-time trader in commodities and stocks. A CME member since 1954, he joined the exchange's board of governors in 1967 and rewrote the CME's rulebook. He was elected CME chairman in 1969, 1970 and 1971.

Melamed sensed some economic changes taking place in the early 1970s and began looking for new ways in which the CME could benefit from them. Encouraged by economist Milton Friedman and almost no one else, Melamed became the father of financial futures. He pushed through the opening of the International Monetary Market (IMM) in May 1972 for trading currency futures.

Even then, he had grand visions of what the IMM could be.

"We believe the IMM is larger in scope than currency futures alone and, accordingly, we hope to bring to our threshold many other contracts that relate directly to monetary matters and that would complement the economics of money futures," he wrote in the IMM's 1972 annual report.

"Currencies were not just currencies — they launched the whole financial futures scene. We ushered in a whole new era. The greatest contribution I may have made is ringing that bell to start currencies trading," he says today.

Melamed served as IMM chairman for four years and became CME chairman again in 1976 when it was decided to merge the IMM with the CME. Since 1977, he has been special counsel to the CME board and has played the key role in taking the CME from its old butter-and-eggs days to its current status as a major force in world financial markets.

In the last eight years, Melamed also has been the primary force behind the organization and development of the industry's self-regulatory organization, the National Futures Association. He currently is its chairman. He also has been a leader in the Futures Industry Association and one of the industry's



major spokesmen in Washington, D.C.

*It is safe to say that few significant developments have taken place in the futures industry in recent years without Melamed's direct involvement. But now, he plans to scale down his activities at the CME. He told members in a letter Nov. 7 that he will "substantially reduce my role in CME activities."*

*The letter "is simply my attempt to get out from under the day-to-day responsibilities," Melamed told Futures in a mid-November interview. "I'm not going to get away from the international ones or political ones, but I'm talking about the meetings — meetings every day, five days a week."*

*"I clearly intend to stay involved in an 'elder statesman' role," Melamed adds. "And if that includes direction as well as advice, certainly (I'll be involved). It clearly is going to include criticism because I don't intend to sit still if I see something real stupid. But on a day-to-day basis, it really is going to be a big change, and they're going to have to get used to it."*

If Leo Melamed were to start today to prepare for trading in the last half of the 1980s, he would:

- "Learn everything I could about options and be a trader who could use both (futures and options) markets."
- Interpret technical signals differently. "I see (technical) signals holding true overall, but they don't work as quickly or as purely as they did 10 years ago," Melamed says. "I have learned the market now requires me to take some profits quickly and not increase my position to the point I would have five years ago."
- Think more like an institutional money manager. "I used to run faster than he would because it was my money," Melamed says. But he thinks the institutional trade is going to force the fundamental result in the long run. "He's got more money, and now he's using our market. I have started thinking more like him."
- Think globally. "The Singapore link the CME did is only a weather vane of things to come," Melamed believes.

Melamed is convinced the biggest change in the industry in the next five years will be "the application of options against our markets and the growth of options markets." However, familiarity with options is not something that will come by osmosis to futures traders, even though the underlying instruments may be the same, Melamed notes. So he thinks options are going to mean a new clientele altogether for the market.

He doesn't think exchanges will in-

vent more brand new products.

"I think the growth will be vertical rather than horizontal. I don't think we're going to invent new sectors to trade like we invented an interest rate sector or an equity sector," he says, indicating the CME is looking at other domestic and foreign equity indexes but not a new sector. "The revolutions we've caused in the last 20 years really cannot be duplicated."

Most of the recent brokerage firm squeeze is behind us, and trading activity is about ready to pick up again, Melamed predicts.

"The very first effect you are going to see is a change in the dollar," he says, pointing to evidence that is already starting to take place. "That's going to promote a variety of changes," including potentially huge volume in the CME's currency futures and new options markets.

"Whether 1985 is the year or whether 1985 will still be a transitional year, I'm not going to try and predict," Melamed adds. "I think it will probably come sooner than later because we have been through a cycle that has been four or five years in the making and usually that's enough."

### Ag spurt, too?

He expects agricultural markets will even break out of their lethargy during this period, but he wonders about strength in the equity markets.

"If the stock market doesn't go up explosively pretty soon, I'm going to start wondering why it didn't," he says. "Maybe by the first quarter of 1985 I ought to see that next major leg up or I'm going to start to worry about that (poor) corporate profit structure maybe preventing that leg from occurring."

Whatever he trades in the last half of the 1980s, Melamed expects it will be more difficult.

"Futures markets have now become an establishment thing. Look at our membership list," he says. "It's a lot harder to trade now, and I have to pay a lot more attention to the market as a trader. I used to run the exchange, run the show in Washington . . . did five or six major things and traded successfully."

"And when I say trade, I was in 10 markets at a time," Melamed says. "God help me if I try that now. They'll carry me out. I can only trade three or four markets at a time now."

"It happened because I got a lot more competition," he says. "We've become established. There are some pros around. They're using our market and are just as good as I am." □

Reprinted from  
**Futures**  
The magazine of commodities & options  
January, 1985 Issue

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219 Parkade Cedar Falls, Iowa 50613