

Chicago • Business

CRAIN'S

After the Merc, Leo as manager

Can Melamed harness vision to build a firm?

By PETER J. W. ELSTROM

The man most responsible for building the financial futures industry is now looking to build his own futures business.

Leo Melamed, who retired from a two-decade run as leader of the Chicago Mercantile Exchange (CME) at the end of last year, is turning his hard-charging energies toward growing his Dellsheer Investment Co.

He recently struck a deal to sell a majority interest in the Chicago futures firm to the giant Mitsui Taiyo Kobe Bank Ltd. (MTK).

That agreement, which is expected to win federal regulatory approval within the next few months, will combine Mr. Melamed's reputation and MTK's capital—two attributes that could turn little Dellsheer, which Mr. Melamed founded in 1965, into a premier futures industry force.

"I had the expertise, I certainly had the credibility, I had the entree. I didn't have [the capital and global presence] on a personal level," said Mr. Melamed. "I was looking for a partner that could provide those two elements, and sure enough, Mitsui Taiyo Kobe is the perfect partner."

Nonetheless, the venture faces some high hurdles.

A shakeout

Among the highest is the fact that Chicago's futures industry brokerages are in the midst of a shakeout caused by declining commission rates and decreasing customer volume. Dellsheer will be fighting for a bigger slice of a shrinking market.

In addition, while the 58-year-old Mr. Melamed is known throughout the industry, his firm has neither the personnel nor the computer systems to compete for institutional business with more powerful and established local futures firms.

Moreover, it's not certain that the dynamic Mr. Melamed can translate his proven ability as an industry leader into the hands-on management skills necessary to build a business.

"He's very demanding," said William Hanley, former director of marketing and research at Dellsheer and now an industry consultant. "He expects the best out of you. Some people find that difficult."

Despite the potential stumbling blocks, the prospects for Dellsheer appear promising.

Mr. Melamed's reputation in the futures industry is unparalleled and, after almost two decades as the major proponent of financial futures, his business connections are, to say the least, expansive.

Good recruiting

While Dellsheer until recently was little more than a token business, as Mr. Melamed spent most of his time at the Merc, the firm has begun to recruit major league talent from competitors.

The backing of MTK, the third-largest bank in the world with \$409 billion in assets at the end of 1990, gives Dellsheer the capital to handle huge accounts.

"The No. 1 track is going to be to get institutional business of the kind I could not get with my bottom line before," said Mr. Melamed.

The deal calls for MTK to boost Dellsheer's capital to \$10 million from the current \$3.6 million and to pay Mr. Melamed an undisclosed amount of cash in exchange for a majority interest in Dellsheer. Mr. Melamed said he will retain a "substantial minority interest" but he would not specify his ownership percentage.

The firm also will begin handling the trades of MTK, one of the biggest players in the Eurodollar trading market.

The Federal Reserve Bank of San Francisco, which oversees MTK's domestic holdings, still needs to approve the deal. A Fed spokesman said MTK is now in the process of replying to "standard" questions.

Industry sources close to Dellsheer say Mr. Melamed is receiving \$10 million from MTK for the majority stake—a figure that would be truly spectacular, according to industry experts.

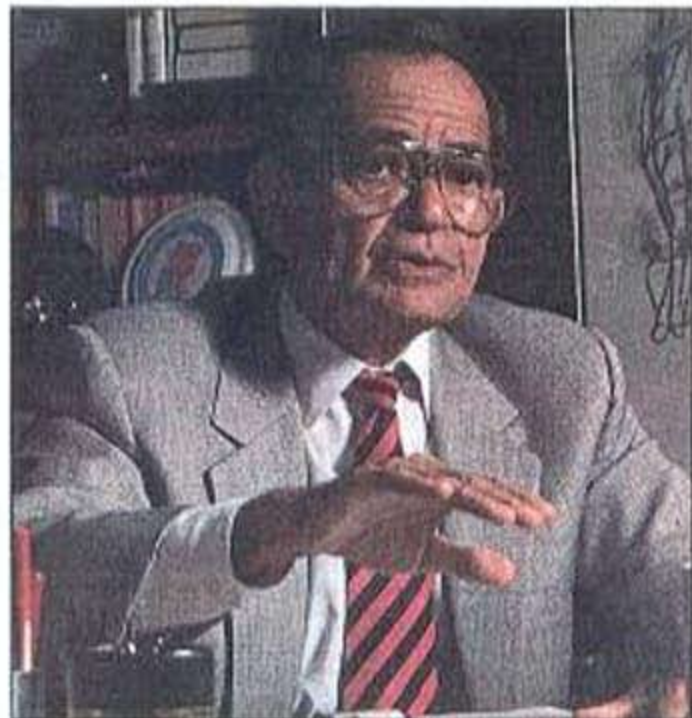
At the height of the bull market three years ago, profitable futures brokerages were bought for three or four times book value. Marginally profitable firms, such as Dellsheer, now go for book value—in Dellsheer's case, \$3.6 million.

At \$10 million, Mr. Melamed would be getting almost three times the going rate, while maintaining a substantial equity stake.

Neither Mr. Melamed nor a representative of MTK would comment on the purchase price.

The challenges facing the invigorated Dellsheer are significant. For starters, the firm will have to attract substantial commissions from institutional traders.

But the average institutional commission has been slashed to a paper-thin \$10 per trade, or one-third the level of a decade ago, even as the amount of business is slipping.



A tall order: Leo Melamed's Dellsheer Investment Co. wants a bigger slice of a shrinking futures brokerage market.

Trading volume at the Chicago Board of Trade was off 11% in the first seven months of 1991, and volume at the Merc was up only 6%, compared with double-digit increases in previous years.

And much of the institutional business is moving in-house as many futures players find it less expensive to execute trades themselves.

Another problem for Dellsheer is that its staff, which now totals 60 employees, can't match the depth of other major futures brokerages, such as Refco Inc., LIT Holdings plc's LIT America and Discount Corp. of New York Futures.

That weakness raises questions about whether institutional clients—even if they are attracted to Dellsheer by Mr. Melamed—will stay if they don't feel the firm's service is equal to that of other brokerage houses. Such client service will depend not on Mr. Melamed, but on the rest of the Dellsheer staff.

"It's the guy who handles your trades that matters," said the head of one Chicago futures firm.

And it's not clear that Mr. Melamed has the management skills to build a business.

No doubt his vision and intelligence led to his pre-eminent role in introducing financial futures and selling the concept to businesses worldwide. Yet some say his broad perspective and ego could prove harmful in a business built on the dirty details of client service.

"I think that kind of leadership only goes so far," said one industry source.

Potent combination

Indeed, Mr. Melamed concedes that he has not concentrated on building Dellsheer. "My mission in life, as I saw it, was to promote financial futures," he said.

Still, other futures experts contend the Dellsheer-MTK venture will

prove a potent union.

"That combination will make a powerful impact on our industry," said Jack Sandner, chairman of the CME, president of futures firm RBS&H Inc. and Mr. Melamed's protégé.

Mr. Melamed plans to drum up business from the many institutional clients that learned the futures business with his help. For example, New York-based Chase Manhattan Corp., Manufacturers Hanover Corp. of New York and San Francisco's BankAmerica Corp. all began trading at Dellsheer and later started their own clearing firms.

"I certainly know the players," he said.

Entering Japanese market

Mr. Melamed also expects his relationship with MTK to give him entree into the Japanese market that has so far seen little penetration by American futures firms.

To beef up Dellsheer's capabilities, Mr. Melamed recently hired several respected professionals.

He lured William Chase McQuade, who played a major role in building Northern Trust Co.'s futures operations, away from the Chicago bank to become senior vice-president of marketing.

Mr. McQuade brought along Gus Riggio, who had also been at Northern Trust, to run Dellsheer's bond trading desk at the Chicago Board of Trade. And Anthony Czapl, formerly of Commodity Monkeys Inc. and Chicago Corp., was hired as senior vice-president for managed funds.

Mr. Melamed said the firm plans to expand further after the MTK deal is finalized and business begins to build. Most employees are enthusiastic about Dellsheer's chances and Mr. Melamed's role with the firm.

"This man is brilliant," said Mr. McQuade. "I'd go long on the stock."