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THE LORDS OF TRADE

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Within an imaginary semicircle arching from Madison Street and Wacker Drive southeast to LaSalle Street and Congress Parkway lies Chicago's Fertile Crescent—home to the Chicago Board of Trade, the Chicago Mercantile Exchange, the Chicago Board Options Exchange and the Midwest Stock Exchange.

In recent years, the CBOT, the Merc, the CBOE, and to a lesser extent, the Midwest Stock Exchange, have emerged as key players in an increasingly integrated world economy. Yet they remain much like prophets in their own land—infrequently appreciated and sometimes viewed with deep cynicism by members of the non-investing public.

Many individuals have little understanding of what products these markets trade or even where they are located. The fact is, according to a study by the Commercial Club of Chicago, these exchanges provide the city with a powerful economic shot in the arm, employing 110,000 persons, generating $11 million in annual property taxes and triggering an additional $1 billion yearly in spending on exchange-related goods and services.

The CBOT and the Merc are the world's dominant futures exchanges, accounting for almost half of the roughly 500 million futures and options on futures traded around the world every year. As such, they enable speculators to bet on the future prices of everything from the cost of money to the price of soybeans, and they allow commercial users of these commodities to lock in prices several months, even years, before they actually take or make delivery of them.

The CBOE, the pre-eminent market of its kind, permits speculators to bet on the future prices of an array of stocks and two leading stock indexes, while many pension-fund managers, for example, use CBOE products to hedge against adverse swings in the prices of securities they are holding in their investment portfolios. The Midwest Stock Exchange, like the New York Stock Exchange, is a traditional securities market, offering trading in New York-listed securities and several regional stocks.

The CBOT, the Merc, the CBOE and the Midwest serve as role models to budding and established securities and derivative financial markets from the Pacific Rim to Europe. This despite several periods of adversity that have occurred in recent years. Three dozen Merc and CBOT traders, for example, were convicted in federal court of cheating customers following an undercover FBI probe that ended in 1989; the Midwest late last year impaneled a blue-ribbon committee to determine how a computer error may have caused a Midwest subsidiary to retain sizable interest payments that may have belonged to broker-dealers; and both the CBOE and the Merc and several volatile contracts they trade were blamed by some for laying the seeds for the historic 1987 and 1989 market crashes.

In any case, hardly a day goes by that a king, president, prime minister or some other official representative of a foreign country is not in Chicago studying how these often colorful markets function and meeting the men who make them work.

These market leaders are as different from one another as the products that are traded on their exchange floors, i.e., a Polish-Jewish refugee from World War II, a former patronage chief under the late Chicago Mayor Richard J. Daley, a Golden Gloves boxing champ from a working-class neighborhood on the South Side. Despite their unique backgrounds, these leaders share several common traits—enormous egos, a seemingly endless capacity for work and the unbending belief that what is good for their exchanges is good for Chicago, the country and its citizens.

Profiles of these market leaders are on the following pages. ➤

William B. Crawford covers the financial markets for the Tribune.

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LEO MELAMED

The Chicago Mercantile Exchange

LEO MELAMED

CHAIRMAN EMERITUS

Leo Melamed, the father of financial futures and the *eminence grise* of the Chicago Mercantile Exchange, has vivid remembrances to this day of his Trans-Siberian Railway journey across the Soviet Union to the port city of Vladivostok more than five decades ago.

"I remember the trip well," says Melamed, who boarded the train in Moscow in late 1940 at the age of 7 with his mother, Fayga, and his late father, Isaac, to escape the ratcheting turmoil set in motion by Hitler's decision to invade the Soviet Union.

"The trip took four weeks; my father taught me how to play chess; there was little food; and the whole time, the temperature hovered around 40 degrees below zero," recalls Melamed who was born in Bialystok, in Eastern Poland.

It was an inauspicious beginning for Melamed. Despite the long odds, Melamed and his parents made it to America, setting sail from Japan aboard the Heian Maru passenger ship less than a year before the attack on Pearl Harbor; and to Chicago, where, on May 16, 1972, this only child of Polish-Jewish parents gave to the world its first financial futures, a move that has revolutionized modern finance.

"The birth of financial futures was the convergence of three ideas going around in my head: The Merc needed to diversify its product line; I knew the Bretton Woods agreement (which pegged currency exchange rates to the dollar) was doomed; and I and a group of other young traders were looking for ways to make money, including speculating in certain foreign currencies we knew were vastly overvalued," he says.

It is difficult to exaggerate the enormous impact Melamed's decision to launch the first financial futures—seven contracts based on the fluctuating value of seven different foreign currencies—has had on Chicago, on modern investment portfolio theory and on other financial centers stretching from the Pacific Rim to Europe and the Soviet Union.

These currency futures, and their eventual adoption by initially skeptical market participants, paved the way for the successful marketing of a dizzying array of similar products at the Merc, the CBOT and the CBOE. In the ensuing years, these exchanges have launched futures and options on everything from Japanese and American stock indexes to interest-rate swaps, Eurodollars, currency cross-rates and Treasury bills, and their success has transformed Chicago almost overnight into the risk-transfer capital of the world.

When Melamed arrived at the Merc in 1955, after graduating from John Marshall Law School and briefly practicing law, the exchange, then located at 110 N. Franklin St., was trading just two agricultural futures contracts and facing collapse. By the mid-'60s, seat prices had risen modestly (to several thousand dollars), but the Merc's fate still was tied to only two products, a pork belly and a live cattle futures.

In 1969, Melamed was elected to his first term as exchange chairman. During the next 14 years, either as Merc chairman, as chairman of the International Monetary Market (which oversaw the launch of financial futures) or as special counsel to the board of governors, Melamed dominated all facets of exchange politics as trading volume set new records year after year, seat prices soared to $550,000 and the exchange itself was forced to move twice to new quarters because of the astonishing growth.

Two years ago, Melamed stunned a disbelieving futures world when he announced he was withdrawing from all exchange politics except his job at the helm of Globex, an after-hours electronic trading system under development with Reuters PLC Holdings Inc.

By any measure, dame fortune has smiled on Melamed, who so far he has made good on his promise to forswear Merc politics. Currently, he awaits government approval for the sale of a controlling interest in his firm, Dellsher Inc., to a Japanese bank, for about $11 million.

"You know," Melamed said, somewhat ruefully, during a recent interview in his glass-enclosed Dellsher office high above the Merc trading floor at 30 S. Wacker Dr., "when financial futures were first launched, Chicago was a second city, we at the Merc were the black sheep, and the outside world said we were selling snake oil." ➤