

# Interview

## The Amex Turnaround

An Interview with Neal L. Wolkoff, Chairman and Chief Executive Officer, The American Stock Exchange Inc., New York



Neal L. Wolkoff

**EDITORS' NOTE** Prior to assuming his current position in April 2005, Neal Wolkoff was Acting CEO of the American Stock Exchange, and before that, he spent more than 20 years at the New York Mercantile Exchange, most recently as Executive Vice President and Chief Operating Officer. With a B.A. from Columbia University and a J.D. from Boston University School of Law, Wolkoff began his career as an Honors Program Trial Attorney in the Commodity Futures Trading Commission's Division of Enforcement. A member of the bar of the State of New York and the United States District Court, Southern District of New York, Wolkoff has been a guest lecturer at Columbia University's School of International and Public Affairs, and has been a frequent public speaker on market issues and risk management at industry and government seminars.

**COMPANY BRIEF** Based in New York, the American Stock Exchange ([www.amex.com](http://www.amex.com)) is the only primary exchange that offers trading across a full range of equities, options, and exchange traded funds (ETFs), including structured products and HOLDRSsm, which are trust-issued receipts that represent beneficial ownership of a specified group of stocks. In addition to its role as a national equities market, the Amex is the pioneer of the ETF: It was responsible for bringing the first domestic product to market in January 1993 and now lists more than 200 ETFs. The Amex is also one of the largest options exchanges in the United States, trading options

on broad-based and sector indexes as well as domestic and foreign stocks.

### Have you been happy with recent growth at the Amex, and where do you see growth coming from in 2007?

I've certainly been pleased with the direction the exchange has taken in recent months, but I wouldn't say I was happy with the growth because I always like things to go faster and be better. When I came here about a year and a half ago, the exchange was clearly in a turnaround situation. We have been successful at implementing all of the building blocks and solidifying our position, and we've had some growth along the way. We expect more growth with the recent launch of AEMI SM [Auction and Electronic Market Integration], our new state-of-the-art electronic trading platform, which will trade equities and ETFs on the outset but has been designed to trade multiple instruments. AEMI provides immediate and automated execution of electronic orders – it is as fast as an ECN – and it will also support brokered orders and the best qualities of the auction market when conditions warrant human interaction. We are now readying ourselves for Regulation NMS [National Market System] in 2007 and with AEMI, which will be in full compliance with Regulation NMS rules, the Amex can drive a great many more transactions through the exchange and reduce our costs. I'm anticipating a significant ramp up in transactions and in revenue, and opportunities for the membership as well.

### When you joined the Amex in 2005, what made you think it was the right move for you?

I have a background in exchanges. I was at the New York Mercantile Exchange for about 20 years and became its Executive Vice President and Chief Operating Officer. The move to the Amex provided me with a certain comfort level: Where others saw chaos, I saw a fair amount of predictability. I saw that the exchange had certain problems in the area of technology, and a fairly poor regulatory relationship with the Securities and Exchange Commission [SEC] so I made both of those my immediate priority – and the exchange's priority. Those are areas that we've been tackling with pretty good success over the course of the last year and a half.

Before making the move to the Amex, I had an opportunity to see for myself what some of the problems were, and I thought that a lot of the

issues were definitely addressable. I thought the exchange had an opportunity to recapture market share, but I also thought it was a wonderful marketplace in certain respects, with fairly high-growth business in a number of different product lines. These areas of business would be difficult to start from scratch. You couldn't really just open the door one day and say, "Okay, we're an options exchange," or, "Okay, we're an equities exchange." Each one of those markets had some challenges to them, but I thought that the challenges, by and large, originated with technology.

The Exchange faced challenges on fee structure and customer relationships, and had an overall issue with the SEC relationship, in terms of getting new endeavors through the regulatory process. Some people said it couldn't be done, but I thought that the problems were addressable. Over the last year and a half, I've found that my judgment was right. It has been extremely hard to address all the problems, but we are now close to seeing a lot of that hard work bear fruit over the next year to two years. That's when we'll see the benefits of having made those hard investments in technology, market structure, and the like, and we can move ourselves to another level.

### Was it hard to convince people that your changes were going to move the exchange forward? How important was internal communication?

It was critical. Oftentimes, you think of an organization's people in terms of cost: How much are you paying for personnel? But when I came in, I took a different approach. I asked myself: Do I have the right management? Is morale high enough within the management team for us to promote a fairly difficult and new agenda? I quickly realized that there had to be changes in the management team. It was not the right team for me, so the management team was largely turned over, with some exceptions. It wasn't just a complete house cleaning, although there were some aspects of house cleaning. Some of the people in the team were terrific assets who needed a new direction. I've been fortunate that the new management team has coalesced quickly. It has turned into a disciplined group. People have grasped the significance of what we're trying to do. Everyone understands that it's an opportunity that promises great rewards, but it's a difficult opportunity and we need to work very hard.

One of the benefits for the people who remained in the management team is that they are

now able to ply their trade in a more unfettered way, with more accountability but also with greater freedom than they had before. People have responded well to that. We've also had new talent come in, and those people bring new skills. We have a whole new technology team, and they bring a whole new direction. We went from being extremely weak in that area to having one of the strongest technical teams on Wall Street. The same can be said for market structure and regulation. This is also the case with our individual product lines. Throughout the exchange, the talent level is as high as you would find in any trading organization around.

**The Amex is known as the home of small-cap companies. Do you focus exclusively on that segment, or is your market broader than that?**

I see the current focus as being on the small-cap and mid-cap markets. We do have some large-cap stocks, and on a company-by-company basis, there's absolutely no reason why one of those companies should leave, or why a small-cap company that grows into a large-cap company should leave. The value here is great. We intend to enhance our number of listings on the equity side of the business by capturing as much of the small-cap market as we possibly can. Over the course of the next several years, as they grow, we will give them reasons to stay. We will broaden our base over time, but right now and for the foreseeable future, we aim to be the gateway to capital markets for small-cap companies, be they domestic, Canadian, or international.

**How is your focus split between the domestic market and emerging markets overseas?**

In the U.S., we are about to enter a new era of high trading volumes, the likes of which we have not seen previously. I don't mean just the usual organic 4 or 5 percent rate of growth – I'm expecting to see a much higher rate of growth than that. Emerging markets provide another opportunity. There are difficulties in access, of course, and there's almost no framework for harmonization between American rules and foreign rules. It would be good to see some framework for harmony. That would be a real plus, and would accelerate our interest in opportunities overseas.

**How does the Amex differentiate itself as a brand?**

We've begun to strongly differentiate ourselves since I arrived in 2005. The reality is that there are tremendous differences in cost and services among the three listing venues in the United States. While there is certainly competition for listings at all price levels, there's no greater value and no better level of service for small-cap companies than at the Amex. We advocate for them and we provide them with benefits that are unique to the needs of the small-cap company – access to research, institutional investors, investor relations, and support – all as part of the membership. That membership costs a small fraction of what the New York Stock Exchange would charge, or even what the Nasdaq global market would charge. At the Amex, you get the same ready access to connectivity through all the broker dealers. You get blue-sky exemptions in all 50 states as an Amex-listed company, and on top of that, we're greatly improving ourselves.

Our infrastructure, and in particular our trading technology, is a compelling story for a lot of companies. So we specialize in catering to companies' specific needs, and as such, they prefer to come to us than to someplace that's much larger, where they'll be a pebble in a large pond.

**How far can technology go toward eliminating human interaction altogether?**

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**I think that by anyone's definition, our market structure could be viewed as fully electronic.**

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Oh, it has already gotten to that point – there's no question. One of the characteristics of small-cap equities is that they need to build liquidity. The same is true of ETFs. The presence of the specialist is hard to imagine in the context of a purely electronic system. But there are so many value judgments to be made, so it really does serve its purpose, by providing a sound base for investors and providing them with liquidity to grow. It supports these stocks and the ETFs. The issuers appreciate that, and come to rely on it.

One of the factors that investors should keep in mind is that in a specialist model, you can still obtain a price improvement on your order. If you want to sell at a certain price, and the nearest bid is a nickel away, a specialist system might be able to get you an extra two or three cents; whereas, in an electronic market, you'd simply sell where the bid is. That may not sound like a lot when we're talking about two or three cents, but when you add those up over hundreds of shares and dozens of transactions, it could be quite significant.

At the Amex, we've created a market structure that is much more automated. In fact, I think that by anyone's definition, our market structure could be viewed as fully electronic. If that is the way that a customer chooses to access the market, he'll have an execution in as few milliseconds here as he could get at any other venue. But if the customer wants anonymity, or price improvement, or some human interaction for support or advice, we offer that as well. The term "hybrid" has come to reflect this. It's important to remember that the complete loss of human interaction does not necessarily mean the quality of the market overall is improved.

**Has the last year and a half, since you joined the Amex, been what you expected? How do you focus your time in order to achieve your goals for the exchange?**

In some macro respects, I would say that it has been what I expected, but in other respects, it hasn't. I think my initial expectations were a little unrealistic. And now, of course, I'm looking

out with a set of rules for AEMI that have been approved for Regulation NMS. AEMI has recently come online and we have new technology data centers that have come online to run our new system, and we have an options platform that's vastly improved. Some firms that walked out of here two, three, or four years ago muttering, not even under their breath – they were quoted on the business pages of the papers – about how unwelcoming they found the Amex, are coming back. The business has returned.

It's not always obvious how hard it is to get everyone to focus on the same goals and the same objectives. It has been a taxing job, but, at the same time, it has been a fun job. I really like the fact that you get to see the fruits of what you planned out a year and a half ago all coming together – if not like clockwork, then at least coming together. That really is the most satisfying part of the job.

**What would members of your management team say about your leadership style?**

They'd probably say that I am very probing and keep them on their toes. I make them work very hard, and make them put their best effort in, and they enjoy it more than they ever have. I think you'd find that combination. They are doing more: They're facing harder questions, but they like it. As I mentioned earlier, people are given tremendous responsibility and clear accountability. I'm not the kind of person who just let's everything float by. I'm constantly talking to people and on top of the issues. People may think that I'm too involved in too many issues, but I find that, in a situation like this, it's easy to fail if you don't know what's happening and if you can't make sure that the company is going along the right path. I don't want to fail and I don't plan to fail. I think people here trust that I won't let them fail.

**Your people can reach you at any time of day or night. How challenging is it to turn off the business? Do you ever manage to get away?**

My wife would like me to turn it off a lot more than I do. I do put the Blackberry down sometimes. Having been a Chief Operating Officer, I am pretty used to having my cell phone with me on weekends, even when I'm at the movies, just in case. That said, however, I find that the weekends do provide a respite, and I am able to enjoy my time with my family, my dog, and my hobbies. I try to keep some sanity in my life by reading and doing other things that take my mind away. I also take care of myself physically. Sometimes – and this is not a cliché with me – your best thought is when you're not thinking at all. It's in the shower, it's when you've just dropped your kid off at school, it's when you've decided to miss one train and have a second cup of coffee. It's hard to be really creative if you're just being a machine. When you're leading a business, you really do need to think about things, and not always in the typical "A, then B, and then C," kind of way. You need to look ahead, you need to see the big picture, and you need to be creative. So it's important to soften things a little bit every once in a while. I probably should do more in this regard. My wife will read this explanation and say, "Are you kidding?" But that's married life, my friend. ●