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Software-based business speed networking on October 28 in Chicagoland!



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October 1, 2004



Two Chicago Tech Heavyweights Shed Gloves at TiE Chicago Meeting

9/30/2004

CHICAGO – About 4,000 years ago, an ancient civilization known as Indus occupied an area larger than France in what is now northwestern India.

Unlike others of the time, the Indus seem to have had no war and no warlords holding the culture together thanks to a mix of charisma and intimidation. The peaceful civilization remained in tact for some 1,000 years based on the strength of its system of commerce and the symbiotic relationships it necessitated.

It's in that spirit that two Chicago-born heavyweights in the derivatives trading industry, [optionsXpress](#) and [thinkorswim](#), Tuesday shed their boxing gloves and weaved tales of inspiring competition at the latest Midwest chapter meeting of [The Indus Entrepreneurs](#) (TiE), an organization named for the peaceful yet business-like Indus.

Held at the subtly sophisticated Loop offices of the law firm of [Gordon Carton & Douglas](#), the event was attended by about 200 people. The crowd hummed with rampant networking as guests enjoyed wine, cheese and tasty hors d'oeuvres. Private equity mixed with entrepreneurs and entrepreneurs chatted with each other about possible collaborations.

Though the theme of the evening's event was Chicago's impact on the derivatives market (as if any place else matters), the crowd consisted of far more than just traders.

The speakers hit on topics of interest to any fan of entrepreneurship. John Calamos, CEO and founder of money management firm [Calamos Investments](#), opened the speaker portion of the event with observations on the psychology of successful entrepreneurship.

"One of the things we're looking for is entrepreneurs with passion for their businesses," Calamos said. "We used to see in the 1990s businesses that were built to flip. I think that game is over. If you have a build-to-flip mentality, a good VC will find that out hopefully before the damage is done."

Calamos, a former U.S. Air Force major and combat pilot, believes entrepreneurs with passion won't give up when the going gets rough and have the fighting attitude necessary to win in competitive markets. In the past, companies built to flip were overvalued and "built on promises that would never materialize," he said.

While shunning flash-in-the-pan concepts, smart money should favor businesses that increase the profit margins of other companies, Calamos says. He says an "entrepreneurial network effect" should be recognized. Calamos urged business people to take advantage of changes in the marketplace and not to blame everything bad on externalities.

"Execution supersedes intentions," he cautioned.

Tom Sosnoff, the CEO of software-based derivatives trading platform developer [thinkorswim](#), agrees that execution is king. To execute, he says entrepreneurs should know more about their space than anyone else. "Know your space," he commanded the audience.

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Sosnoff used an example from his business to illustrate the fact that customers – like dogs – can sense weakness. “It doesn’t matter if a customer is a \$1 million account or a \$2,500 account. They know if you know. They know right when they sit down with you if you know your space,” he said.

According to Sosnoff, entrepreneurs should stay focused even though it’s hard to do one thing better than everybody else. “That’s the edge that makes the difference,” he said. Sosnoff also offered some insight into how entrepreneurs deal with the fund-raising paradox.

“When you need money, you can’t get it or you have to give up too much to get it. When you don’t need money, that’s when you can get it,” he said. Explaining why his company took outside investment, he said: “Why did we take the money? Because it was there!”

Sosnoff credits his company’s success to the strength of his technology and the intense focus on his customers. That’s what helps him steal the best customers from companies like Merrill Lynch, which is also a thinkorswim client. According to Sosnoff, the best product is born from hiring the best people and managing them to get the highest return on intellectual capital.

“If you sat eight developers around a table, you’d think they’d never develop anything. They’d just be IMing each other back and forth,” he said to a low rumble of chuckles in the audience. “I manage my developers to get the best product out there. That’s why our technology is two years ahead of the average competitor.”

Christopher Dean, a vice president at [Summit Partners](#), gave a VC’s perspective and somewhat echoed Sosnoff’s assertion that money comes when companies don’t need it. Dean said: “We want to find companies that are already successful. It takes a lot of risk off the table.”

According to Dean, Summit looks for more than just successful companies. The road traveled also matters. Summit finds attractive companies that have been bootstrapped and have continuity of management. He added: “Bootstrapped companies bring a higher level of vigor and commitment. We find good companies and stay out of their way.”

One of the companies Dean found was optionsXpress, a Web-based compliment to thinkorswim’s software solution.

David Kalt, co-founder and president of optionsXpress, contradicted the so-called first-mover advantage: “There were plenty of companies out there doing options trading. Though we weren’t the first, we found ways to do it better. We did a lot of little things that made customers leave competitors.”

Kalt agreed with the value Calamos places on passion and elaborated: “I can’t rely on just my passion or just the passion of my leadership. I have to inject that passion into all my employees,” he said.

With passionate employees and the complimentary skills of intergenerational partners, optionsXpress grew rapidly. Still, Kalt and his partners resisted the temptation of short-term gains. After recognition from *Barron’s* magazine: “Our phone began ringing off the hook. We could have flipped the business at an incredible multiple but we wanted to stay in.”

Kalt gave advice on handling private equity investors.

He said a company should be able to give a clear picture of when it will be profitable in order to attract investors. He stressed the importance of finding the right investor. In Summit, Kalt found an investor that would allow the optionsXpress partners to take money off the table, which is an unattractive concept for most private equity investors.

“Summit provided us with freedom and the ability not to have our entire family’s savings tied up in the company,” Kalt said. “They really gave us freedom. We were free not to make short-term investments.”

Kalt gave insight into the dangers of “friends and family” investors. Though he said such investors



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are often crucial to many emerging companies, entrepreneurs should be sure they can maintain relationships while they're pre-investment. Relationships can be strained because friends and family investors "sometimes have the same expectations as a \$90 million investor," he said.

Like Sosnoff, Kalt believes in hiring the best programming talent possible without micromanaging. Even so, Kalt doesn't merely look for people who know how to code or do whatever their job may be. He looks for genuine interest in his business. New employees open an account as soon as they're hired (if they don't already have one).

"If they don't get it in the first week, it's probably not worth investing in them. It's just not going to work out," Kalt said.

Dave Wolkowitz is the strategic marketing consultant at Technology Park & Incubator Strategies, a group dedicated to assisting technology parks, incubators and emerging companies. Wolkowitz can be contacted at TechParkIncubator.com and at Wolkowitz.com.

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