Institutional Investor

By Suzanne McGee

A BREED APART

How a stubborn, penniless refugee defied Wall Street's conventional wisdom to become a self-made billionaire — and a driving force behind the automation of global securities trading. Is a Refco takeover next?

Peterffy: He's made a career riding against the wind

John Madere

On a small table in Thomas Peterffy's office stands a bronze statuette: Salvador Dalí's rendition of Alice in Wonderland, the bemused literary invention of Lewis Carroll. The founder of Interactive Brokers Group came across the sculpture while traveling in Italy three years ago and immediately identified with it. To Peterffy, a computer programmer who has spent most of his life fighting to modernize securities trading, Wall Street has often resembled an upside-down world where people foolishly and inexplicably cling to the status quo rather than embrace common sense innovations.

"On Wall Street I feel like I am Alice in Wonderland," chuckles the 61-year-old during a rare extended interview with *Institutional Investor*. Especially puzzling, he says, is how people continue to shout and gesture at one another to trade securities when computers can do the job far better. "Nothing makes sense. Everything is mixed up and different than I think it should be."

Over the course of more than three decades in finance, the stubborn Peterffy has battled to set things straight. Since 1977, when he left a job developing commodities-trading software to become an options trader on the American Stock Exchange, he has refused to accept the clubby, backward reality of the trading world. Instead he has striven to remake it according to his vision of supreme efficiency through automation. Along the way the once-poor defector from Communist Hungary has built the 16th-biggest securities firm in the U.S., specializing in the trading of options and other derivatives, and turned himself into a billionaire several times over. He has exerted a profound influence on the way stocks and options trade globally, helping to speed the ascendancy of electronic exchanges and to lay the foundation for the algorithmic trading craze that is reinventing how shares of stock change hands (see page 47). His vision of the way Wall Street should work has gained him the ear of financial regulators, who have adopted many of his ideas regarding market structure.

> **"As I stood on the floor, I was constantly fantasizing about how to put what I was doing into a computer program."**

Interactive Brokers today is one of the world's biggest market-making firms, dealing in more than 9,400 securities and doing business electronically on more than 50 exchanges around the world. Peterffy owns 85 percent of the Greenwich, Connecticut– based firm, which takes in revenues of $1 billion annually and books half of that as profit.

But Peterffy is not content to sit still. Late last month he brought Interactive Brokers into the bidding for parts of troubled derivatives brokerage Refco, which filed for bankruptcy protection after federal prosecutors charged its former CEO with disguising $430 million in customer debts to boost the fortunes of the company's August IPO. Such a deal could instantly supercharge Peterffy's brokerage operations, whose growth has lagged that of his firm's market-making business. But considering Refco's uncertain state, it would be a risky move for someone who has so carefully engineered his success until now (see box).

Peterffy's considerable accomplishments notwithstanding, outside rarefied trading circles few have heard of him or his firm. And that's just fine by him. An intensely private man, he sometimes speaks to the press or publishes papers in academic journals to voice his views about market structure, but he has long shunned publicity pertaining to his personal life and career.

"Thomas is one of those rare people who doesn't seek fame or wealth for its own sake but focuses on doing what he considers to be right and necessary," says Philip DeFeo, who was CEO of the Pacific Exchange, one of the many stock and options markets that count Interactive Brokers as a member, until its acquisition by Archipelago Holdings earlier this year. Peterffy was instrumental, for instance, in helping persuade the Securities and Exchange Commission in 1999 that U.S. options markets could be linked electronically to ensure that investors receive the best possible prices. "He risked everything to push for more-efficient electronic trading networks and helped persuade the financial world these were possible and preferable," DeFeo says. "If you look at a lot of innovations and intriguing market structure proposals, at their roots you'll often find Thomas."

But Peterffy's intensity also has a downside. He is driven by an unstinting belief in efficiency as an organizing principle — not just for markets and business but for all of society. His commitment to this ideal is the key to his success, but it can manifest itself in the eyes of others as egomania, condescension and micromanagement. And Peterffy's unwillingness to suffer those who lack that commitment has alienated colleagues and business partners over the years, preventing his firm from becoming even larger and more influential. He typically shuns marketing and advertising, for example, as needless and inefficient if a product or service is truly valuable. (A recent campaign to attract Refco customers is a rare exception.) Peterffy's forceful personality has turned away numerous potential acquirers, including Morgan Stanley and Goldman, Sachs & Co. Goldman very much wanted to buy the firm in 1999 before it swallowed up two similar concerns, Hull Group and Spear, Leeds & Kellogg.

"He has an idealistic view of the world," says Thomas Russo, a vice chairman of Lehman Brothers who has known Peterffy for nearly 30 years. "He figures if all financial markets are as efficient as they can be, then it will be a better world. He is driven to pursue that goal. And he is very single-minded about it."

AVOIDING THE CROWD IS something that Peterffy learned at an early age. Born in the basement of a Budapest hospital during a 1944 bombing raid by the Russians (Hungary was an ally of the Axis powers during World War II), he grew up in a family whose past successes as merchants, landowners, soldiers and politicians quickly got them branded as enemies of the postwar Communist regime. Teased at school, where he refused to accept the party indoctrination of Hungarian youth, Peterffy was regaled by family members with tales of past wealth and glory.

"I didn't grow up in a great deal of abundance, but I heard about how good it used to be before the war," he says.

As a young man Peterffy decided there was no future for him in Hungary, and in 1965 he left his engineering studies in Budapest and moved to New York. He spoke no English but found his way in the city by reaching out to family friends who had also fled the Soviet-backed government. Soon he landed a job as a draftsman designing highways for an engineering firm. The work didn't pay much; Peterffy shared a spartan railroad apartment on Manhattan's Upper East Side, complete with a bathtub in the kitchen, with Christopher Tors, a fellow émigré.

"Our parents had been friends, and it was suggested that we could share an apartment," recalls Tors, who later became a trader at Goldman and now runs Sasqua Group, a financial markets recruiting firm. He remains Peterffy's closest friend.

When Peterffy's engineering-firm bosses bought a new computer and asked for volunteers to learn how to program it, he was quick to step forward. "Computer language was easier to learn than the English language," he explains. "I realized if I could master the way computers worked, I could find a job, so I sort of taught myself from the manuals."

His logic paid off: By 1967, Peterffy had landed a job at Aranyi Associates, a computer consulting firm

Peterffy enters the battle for Refco

Thomas Peterffy, the iconoclastic electronic trading pioneer and founder of Interactive Brokers Group, can be as difficult to work with as he is brilliant about markets. His uncompromising personality is one reason the $2 billion-in-capital firm has grown solely by organic means over the past three decades, rather than through mergers and joint ventures like other market-making and brokerage houses.

But with his bold bid last month to acquire the exchange-traded futures unit of scandal-plagued Refco, Peterffy showed he is prepared to change his go-it-alone formula.

Acquiring the Refco unit, which before its October 17 bankruptcy filing was the world's largest futures brokerage, would be a quick, potentially cheap way for Peterffy to supercharge Interactive's brokerage division. That customer-facing part of the firm, launched in 1993, has failed to grow as fast as its older and more successful market-making unit, which operates on 55 exchanges around the world. "It would result in the preeminent global futures and options brokerage," says Peterffy, adding that he is familiar with Refco's business after trading the same markets for many years. "I know how they trade and how to deal with them."

Refco's bankruptcy filing came after it forced out CEO Phillip Bennett, who is facing securities fraud charges for allegedly hiding $430 million in debts from investors in Refco's August initial public offering. Bennett has denied any wrongdoing and is contesting the charges. J. Christopher Flowers, a former Goldman, Sachs & Co. partner who now runs a private equity firm, emerged as the first suitor for the bankrupt unit, bidding $768 million, a fraction of its estimated prescandal value.

At about the time of Flowers's offer, Peterffy also reached out to indicate his interest. The bankers and lawyers handling the sale for Refco — at Goldman and law firm Skadden, Arps, Slate, Meagher & Flom — were not receptive, he says. "We couldn't get any conversation going with them," Peterffy asserts. "We thought we were completely frozen out." Responds a Goldman spokesman, "We put every approach that we received to the board members." Skadden partner J. Gregory Milmoe said during a bankruptcy court hearing last month that Peterffy was among several bidders who had contacted him but that "there were a number of people in that boat that we hadn't had time to reply to" before filing for Chapter 11 protection.

Frustrated, Peterffy ran full-page ads in the *Wall Street Journal* and other national papers soliciting Refco's customers. Normally loath to advertise (story), Peterffy is glad he did in this case. A number of Refco clients have transferred their accounts to Interactive Brokers, he says, declining to elaborate.

By the end of October, Interactive Brokers had found its way into the auction process and stood as the highest bidder, willing to pay $858 million for the Refco unit. But several other entities, including multibillion-dollar private equity firms Warburg Pincus and Apollo Advisors, were also circling, and the outcome of the auction was still very much up in the air. (Final bids for the November 9 auction were due by November 4.) In any case, taking over the Refco brokerage may involve substantial risks, given that authorities continue to investigate the firm's finances — and that customers may continue to flee. "We look forward to the opportunity to conduct due diligence," Peterffy says.

Regardless of the outcome, Peterffy's involvement speaks volumes about the extent of his ambition. At 61, he's not stepping down as CEO anytime soon. And if furthering his firm's reach means abandoning his lone-wolf approach, he appears willing to do so.

run by Hungarian immigrant Janos Aranyi. It designed early financial modeling software for Wall Street firms. Long before the birth of spreadsheet programs like Lotus 1-2-3, Peterffy built tools that let analysts calculate stock and bond valuations. A few years later he jumped to commodities trading firm Mocatta Metals, where he developed trading and analytics technology for another Hungarian expatriate, famed metals trader Henry Jarecki. Peterffy began to learn the ins and outs of the financial markets from Jarecki, a psychologist by training.

"I learned an immense amount from Henry about how the markets worked," says Peterffy. "Perhaps the best lesson was to not let my mind become clouded by conventional wisdom."

Within a few years Peterffy had become one of Jarecki's most trusted colleagues. "There was no important meeting that Henry attended without Thomas at his side," recalls Earl Nemser, then outside counsel for Mocatta and now a vice chairman at Interactive Brokers and one of Peterffy's few close friends.

Even after Peterffy left in 1977 for the Amex floor, Jarecki continued to consult with him on important matters. One such instance took place in January 1980, shortly after the wealthy Hunt family of Texas organized an investment pool that nearly cornered the silver market and destabilized trading in precious metals worldwide. Jarecki asked Peterffy to attend a meeting of officials from various metals exchanges and big market players, including then–Salomon Brothers chairman John Gutfreund, to discuss how to cope with the massive oversupply of silver. Should traders get together and buy the surplus? And if so, at what price? An hour into the debate, Peterffy spoke up. "He just said, 'This is the right price' and came out with a number, as if he'd been sitting there juggling data in a computer," says Nemser, who can't remember the precise figure. "The amazing thing was, that was almost exactly the price at which silver settled three or four weeks later."

By then Peterffy had become well practiced at running complex calculations in his head. Upon deciding in 1977 to plunge his $200,000 in savings into an Amex seat, he had already determined to try to apply computer trading models to the brand-new world of listed-options trading. At the time, the Amex and other exchanges didn't allow computers on the floor; when Peterffy needed updated valuation information, he ferried an assistant to a midtown Manhattan office that housed his computer, then back to the exchange with the new data. After trading hours he would write code based on what he'd seen each day at the Amex. "As I stood on the floor, I was constantly fantasizing about how to put what I was doing into a computer program," he recalls. "I began coding it in my head as I stood in the crowd, and then I'd jot down the program later on."

Peterffy's systematic approach made him stick out like an odd lot in the burgeoning options world. The Chicago Board Options Exchange and the Amex options floor had only been open for a few years. In time, the revolutionary options pricing model developed by Fischer Black and Myron Scholes — together with the rapid evolution of the personal computer — would transform options into one of the world's fastest-growing trading markets. But in the late '70s, the exchanges were still dominated by Wild West–style speculation. A booming voice, hulking frame and nerves of steel made a great trader, not computer skills and sophisticated quantitative models.

Not surprisingly, during his early years in the market, Petterfy was considered "wacky" and "eccentric."

"He didn't fit the normal mold," says CBOE chairman William Brodsky, who then served as vice president of options trading on the Amex staff. "He had this heavy Hungarian accent, he came to the floor after working in IT, and he had been at a commodities firm. He was a gold and silver guy, not a stock guy."

Peterffy, as is his wont, puts it more bluntly: "The other guys looked at me as if I was absolutely mad."

In 1978, Peterffy formed T.P. & Co. to expand his activities at the Amex. He hired four other traders, whose buying and selling were aided by what he called "fair-value sheets" that the firm generated with computers every morning. Over the next few years, the T.P. & Co. began to experiment with arbitrage and pairs trading. All the while, Peterffy was focused on a bigger goal. Following Jarecki's mantra of not accepting markets as they were but rather envisioning them as they should be, he forged ahead with the development of his computerized trading system.

In 1982 he reorganized T.P. & Co. into a new firm, named Timber Hill after two roads in a favorite upstate New York retreat. Timber Hill became both a vehicle for Peterffy's own trading activities and a laboratory for bringing his vision of efficiency to the wider market. He hired several other traders and designed handheld computers to help them continuously determine the fair value of options. The goal: to use the handhelds for making markets on the Amex and then expand to the CBOE, the biggest U.S. options exchange at the time.

Timber Hill's early years were anything but an unmitigated success. It had to overcome resistance from exchange officials and fellow floor traders. Peterffy was able to persuade the Amex that his devices would benefit the market, and the exchange permitted him to bring them onto the floor in November 1983. At the CBOE, however, he encountered stiff opposition: A committee ruled that Peterffy's box, which measured about 12 inches long by nine inches wide and a few inches deep, was too big to use in the tightly packed trading crowd. Though astonished that CBOE members didn't appreciate the benefits of his system, Peterffy went back and redesigned it to be about the size of a child's lunch box. (He keeps some of the old devices in a display case in his office.) After a second hearing the CBOE panel abandoned its size objection and cut to the heart of the matter, ruling that no analytical devices could be used in the pits.

"It caused a brouhaha," recalls a former CBOE trader. "People got kind of hysterical at the idea of changing the rules."

Recalls Lehman vice chairman Russo, who was then a partner at New York law firm Cadwalader, Wickersham & Taft and represented Peterffy in his battles, "It was obviously a case of people fearing innovation. Tom had his vision, and he wanted to implement it, but they were afraid that this new technology would change their world too much."

Peterffy scuffled through the next few years, occasionally wondering whether his embryonic market-making business could survive the setback. His business plan depended on earning enough from trading with the first generation of handhelds to pay for exchange-seat leases and to invest in a more sophisticated system. Blocked by the CBOE, he sought to do business on other trading floors. In 1985 the fledgling options division of the New York Stock Exchange permitted Peterffy to deploy his technology, hoping that it would attract liquidity from its bigger rival in Chicago. But exchange officials insisted that the devices could be used only at trading booths located as much as 30 feet from the crowd where transactions were executed. To overcome this problem, Peterffy developed a code system in which Timber Hill personnel using computers at the booths flashed messages using colored lights, each representing a number from zero to nine, to their colleagues in the pits. It took traders about two days to learn the system, after which they could read the light display as readily as the digits on a computer screen. This quickly caused a stir among other traders. A few began to whisper about some kind of bizarre insider-trading scheme. To reassure the exchange and fellow members that nothing mischievous was going on, Timber Hill distributed the code to everyone, Peterffy recalls.

Todd France

Lehman's Russo, who represented Peterffy in his battles to automate floor trading: "He figures if all markets are as efficient as they can be, it will be a better world"

While continuing to fight the CBOE in the mid-1980s, Timber Hill earned enough from its operations on other exchanges to invest in new technology that would eventually help to revolutionize all securities trading. Peterffy built a communications network with connections to stock and derivatives exchanges around the world. By combining this network with the algorithms he'd written over the years to help him decide when to buy or sell, Peterffy created a system that could route orders to the destination offering the best prices, allowing his traders to make tighter markets while instantaneously and hyperefficiently hedging their risk. Timber Hill was regarded as the leader among a handful of firms, including Hull Group and Susquehanna Investment Group, in developing such technology at the time.

A critical turn came in 1987. The Chicago exchange was about to shut down trading in its Standard & Poor's 500 index options, which had failed to attract sufficient trading interest after four years. Sensing an opportunity, Peterffy pledged to exchange officials that Timber Hill would make tight markets in the product for a year — if they would let him use his handhelds in the pit. With nothing to lose, the CBOE agreed. By the middle of 1988, Timber Hill's ability to post attractive buy and sell prices for the options had begun to draw in more traders. Today options on the S&P 500 are the most actively traded index options in the U.S.

Peterffy's contrarian gamble on

the S&P contract helped to supercharge the growth of his firm. During the 1990s he continued to invest in his trading network. He introduced a feature that could split big orders for the same security into smaller pieces and send them to different exchanges as prices moved. The new system offered far more efficient executions than anything that had preceded it and became the foundation for Interactive Brokers Group as it exists today.

In 1993, Peterffy split the firm in two. The electronic market-making business continued to be known as Timber Hill. A new discount brokerage operation called Interactive Brokers, was set up to serve institutions and individual investors. Orders from brokerage customers were sent through the network, executed and reported to clients in a fraction of a second. The brokerage division offered execution not just of stocks and options but also of exchange-traded funds, futures, bonds and currencies. Both units were organized under a holding company that Peterffy still controls and operates, Interactive Brokers Group. That firm, with $2 billion in capital, is the 16th-biggest securities firm in the U.S., according to a recent *II* survey ("Letting it Ride," *Institutional Investor*, April 2005).

Peterffy's once-tiny firm had grown to 298 employees by the end of 1996; the head count today stands at 477. Most are programmers and IT workers. His market-making operations, which profit from providing a two-sided market in thousands of securities (the firm pockets the difference between the prevailing buy and sell prices), expanded from the Amex, the CBOE and the NYSE to eight exchanges in 1990, 31 in 1997 and 55 worldwide today. The brokerage unit more than doubled its funded accounts in the past four years, from 23,000 to 58,000.

It's no accident that securities markets have evolved to resemble Peterffy's vision. Countless firms have copied his so-called "smart order routing" technology. Direct-access and algorithmic systems patterned on the Timber Hill model have been embraced by the biggest Wall Street firms — including Credit Suisse First Boston, Goldman, Merrill Lynch & Co. and Morgan Stanley — as the best way to scrape out profits in an increasingly efficient, low-margin equity trading business. After Peterffy demonstrated his system to then–SEC chairman Arthur Levitt Jr. in 1999, the agency became convinced that U.S. options exchanges could link electronically to ensure that investors would always receive the best available prices. The SEC soon mandated such a linkage. Peterffy pressured exchanges that resisted moving from floor trading to automated execution. Timber Hill quickly became one of the biggest market makers on the all-electronic International Securities Exchange when it debuted five years ago. (More recently, Peterffy has thrown his support behind another all-electronic market, the Boston Options Exchange.) The ISE's success prompted the CBOE and the Pacific Exchange to introduce their own automated execution systems. Two years ago Timber Hill stopped making markets on the Amex and the Philadelphia Stock Exchange because they lacked similar platforms. Both are now working on systems to automate trading in hopes of stemming the flow of business to competitors.

"The markets have finally come around to his way of thinking," says Hans Stoll, director of the Financial Markets Research Center at Vanderbilt University in Nashville, Tennessee.

Yet Peterffy doesn't consider himself a trader. "I'm a computer programmer, and so are all of the most important people in my company," he says, adding that programmers outnumber other Interactive Brokers employees by a ratio of 5-to-1. He respects the instincts and versatility of talented traders but argues that, ultimately, they can't outperform machines. "Any single program may not beat a really good trader, but all the programs linked together are so fast and accurate that they will beat any trader," he says.

PETERFFY'S SUCCESS DIDN'T come overnight, and it hasn't remade his life. To be sure, he's enjoying the fortune he's earned at Interactive Brokers. He dresses elegantly in custom-tailored suits and lives on the most expensive tract of residential real estate in Greenwich. Peterffy, who dislikes big cities — especially New York — bought the century-old horse farm once owned by airplane magnate Henryk de Kwiatkowski (boasting everything from four guest houses to a wine cellar) for $45 million last year. He started riding at the age of 30 and now owns four horses, for both trail riding and jumping. One of his few outlets outside the office is inviting friends to ride with him. "I bought a place in the country and a horse as soon as I could afford it," he confides. "That was a lifelong dream of mine."

He also owns an expansive beachfront estate on the Caribbean island of Antigua. But he often can't prevent his slavish devotion to efficiency from seeping into his personal life. Rather than waste money on a flashy new car, for instance, Peterffy rolls back and forth to work in a modest, nine-year-old Lexus sedan. He rarely visits his Antiguan refuge, which he usually finds "boring." When he does go, he typically winds up working. "I have exactly the same office set up there so that I can continue to work," he says, waving his arm toward the array of four computer screens behind his cluttered desk at Interactive Brokers' headquarters. Divorced with three children, all students, Peterffy has few close friends aside from Tors and Nemser.

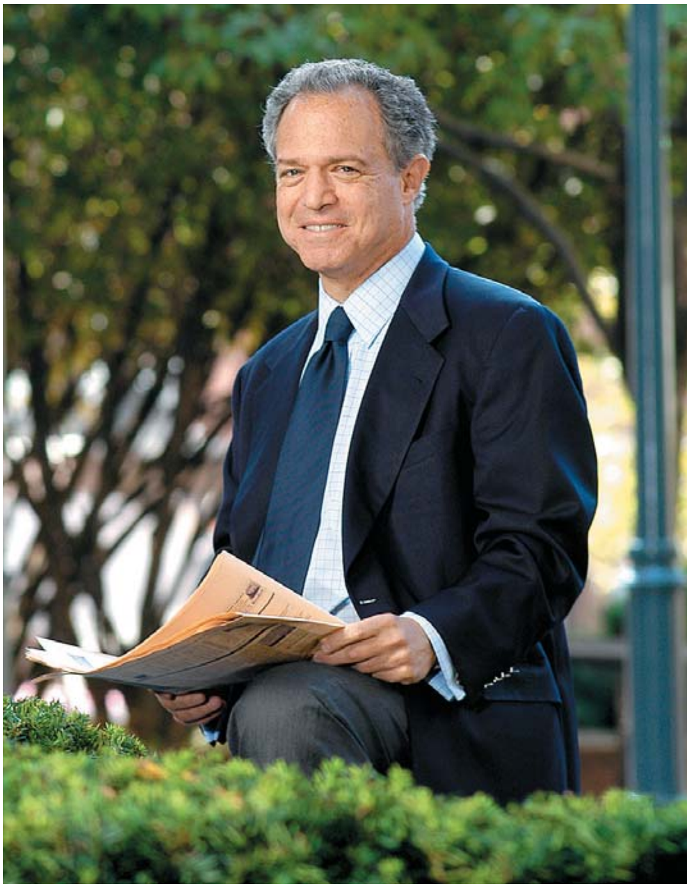
His personality ensures that his company is still run like a start-up battling for survival. Meetings are rare. Bureaucracy is shunned like a deadly virus. "We may have policy manuals and meetings, but it's not how he thinks a company should be run," says Nemser, laughing. "He thinks the world is drowning in red tape, and part of my job is to convince him that some of that red tape is needed for a company the size of ours today."

Final negotiations leading to the creation of the Boston Options Exchange, in which Interactive Brokers has invested $20 million for a roughly 20 percent stake, took only weeks, recalls a still-amazed Will Easley, managing director of the BOX: "I had my first meeting with him in August 2001. We were having formal discussions by late September and shook hands on the deal by early November."

Indeed, Peterffy refuses to compromise when it comes to efficiency. For example, he won't "bust" trades — the act of voiding a trade if one party can persuade the other that it made an error — even though that position has cost him coveted market-maker slots at various options exchanges. "Every now and then people make errors and execute trades at the wrong price," he says. "Sometimes the error is in your favor, and sometimes it's not, but every time you try to bust a trade, you spend a great deal of time and money. It's just not efficient."

Peterffy has sacrificed quite a bit on the altar of efficiency. By his own estimation, the firm's brokerage unit has underperformed in terms of customer growth. That's despite margin rates that are among the lowest in the industry and a bevy of technological tools that can be customized for clients. The biggest reason for the underperformance is probably Peterffy's profound aversion to marketing of any kind.

"He has a very difficult time understanding people who sell things for a living. He has a philosophical viewpoint that any middleman is a bit dishonest, because it means you are selling something for more than you paid for it and the customer is getting short shrift," says Tors. "He also thinks so thoroughly about what he is doing before he does it that he assumes everyone else will see the logic of what he is doing and agree with him — that if he provides the best mousetrap, people will use it for that reason, not because he comes up with the fanciest ad campaign."


Saverio Truglia

The CBOE's Brodsky: Peterffy "didn't fit the normal mold" of loud, burly traders at the Amex in the 1970s

Reflecting that view, Interactive Brokers' marketing presence has been intermittent and scattershot.

"My idea is to create a platform that is so superior to anything else out there, so much more valuable and so much less expensive to use, that it will just sell itself," explains Peterffy. "But it doesn't. I'm stunned. I can only think of giving people more and more in the product, and eventually they will realize that they need it and they will come."

That attitude has frustrated underlings over the years. In 1999, for example, Peterffy hired former CBOE vice chairman Thomas Ascher to run the IB unit. But the two clashed over how aggressively to court customers, and Ascher was gone within a year. (He declines to comment.) Even those who get along with Peterffy have to deal with the effects of his antipathy to salesmanship. William McGowan, a veteran options marketing executive who joined the firm last year as head of sales, says Peterffy won't go out of his way to stroke customers. When clients come to visit the firm's Greenwich headquarters, for instance, he refuses to send a car to the airport or train station, as many competitors do. (McGowan has at times offered rides himself.)

"He doesn't understand that everyone isn't as sophisticated as he is, that they need that extra push," says McGowan, who adds that he has been able to boost the number of options contracts executed monthly by IB from the "low six figures" when he joined to a current rate of about 5 million.

Some customers worry that Timber Hill's market makers can see their orders coming into IB and use that knowledge to trade against them. The firm strictly walls off the two businesses — orders from IB customers are paired with Timber Hill only if the market-making unit is offering the best available price — but Peterffy's aversion to promoting the firm has contributed to an information vacuum that allows rumors and worries over this issue to fester.

"You had guys buzzing about how they couldn't understand how IB made its money," says McGowan. "By the time the rumor mill was finished, there was negative marketing happening, and he simply didn't realize how important those perceptions would be."

Despite the massive technological changes in the markets, Peterffy still believes that there are battles to wage against inefficiency. He decided to support the creation of the BOX, for example, because it offers a mechanism that can improve prices. That, in Peterffy's eyes, makes it preferable to other exchanges that allow members to fill customer orders by executing them against their own inventories of options, without exposing them to the market to see if better prices are available.

"Having Thomas on board was key to getting the big Wall Street firms to participate and to getting SEC approval," says the BOX's Easley. "Not one firm refused to meet with him at a very high level. His credibility with these guys made the project fall into place."

Surprisingly, Peterffy is concerned about the proposed merger between the New York Stock Exchange and Archipelago Holdings, which will make the NYSE a public company with a proven automated execution system for trading stocks and options. "I'm extremely worried that the NYSE will become a monopoly and that they will raise their fees and prices," he frets. "When you have a privatized exchange whose goal is to maximize its profits for shareholders, it is going to be hard for them to resist the temptation to act like a monopoly." That, of course, concerns Peterffy on a practical level: Exchange fees represent half of his firm's costs, its biggest single expense. But he also professes more idealistic motives. "This could really hurt the market — and efficient markets are vital if we are to have a rising standard of living across the globe," he contends.

At 61, Peterffy is not ready to take a backseat at the firm he built or even begin to groom the next generation of leaders. Though he says there's a succession plan in place in case something happens to him, he stresses that absent extraordinary circumstances, he has no plans to step aside. In this context, Peterffy's bid for Refco might be seen as an effort to address his biggest frustration — the fact that his firm's brokerage unit hasn't attracted more clients. If customers fail to recognize that he's built the best mousetrap, he'll simply buy them and force them to admit they were wrong.

Still, as his comments about the NYSE and global living standards indicate, Peterffy seems to be broadening his horizons beyond financial markets and envisioning a time when computers generate efficiency for the entire world. He spelled out this utopian goal in an April speech at the annual meeting of the International Options Markets Association in Chicago. An efficient network able to "mediate and facilitate the global flow of risk capital" would, Peterffy argued, help steer a course between the practical impossibility of a centrally planned economy and the boom-and-bust cycles associated with capitalism.

Those are high-minded principles. But don't expect Peterffy to run for office or try to influence politics through huge donations as his fellow Hungarian émigré, hedge fund billionaire George Soros, did. Peterffy describes himself as "apolitical" and has little interest in philanthropy, labeling most charitable efforts as — you guessed it — inefficient. Rather, he believes he can change the world by improving its financial markets. If efficiency starts there, he reasons, it will flow through the rest of the economy and boost the lot of the poor.

"He has a very idealistic view of the world and the force of automation," says his friend Russo. "But then, the things that he preached in the 1970s that were heresy at the time have become commonplace today. Maybe the best proof of how right he was is his own financial success. Certainly, you ignore his views at your peril."