

Miracle on Wall Street

Eight years after 9/11 all but destroyed the firm, Cantor Fitzgerald has come roaring back to life thanks to the indomitable will of CEO Howard Lutnick — and legions of employees who thrive on being part of something bigger than themselves.

By Rich Blake

PHOTOGRAPHS BY MIKE MCGREGOR

In mid-December 2001, Cantor Fitzgerald chairman and CEO Howard Lutnick sat down in a conference room in an interim midtown Manhattan office and prepared to address his London staffers by videoconference. Set up in the mid-1980s, the U.K. operation numbered 700 strong, and it had by all accounts turned in a near-superhuman effort to help keep the bond brokerage firm going in the wake of the 9/11 terrorist attacks that took the lives of 658 of its 960 New York-based employees. Cantor had pulled through and had even managed to turn a substantial profit in the fourth quarter of that fateful year. The firm had also begun to deliver on a promise to provide financial relief to the families of their fallen comrades.

“It’s not that we’re going to survive,” a weary but upbeat Lutnick told his staffers at the time. “Survival was from Tuesday, September 11, to Tuesday, September 18. We’re not about surviving anymore — we’re about succeeding.”

Nearly a decade after 9/11, Lutnick’s firm has more than made good on his prediction. Not only has Cantor Fitzgerald emerged from the shadow cast by that horrific day, the firm has also fully rebooted its core Treasury brokerage and institutional equity trading operations while building out an ambitious palette of new businesses

Cantor Fitzgerald chairman and CEO Howard Lutnick has led a remarkable recovery at the firm and is now busy adding new lines of business to its core competencies in sales and trading



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ranging from merchant banking and real estate private equity to state-of-the-art casino gaming technology and carbon emissions trading. Former employees have returned, and veterans from top Wall Street firms have found homes at Cantor, including many who were displaced by the current financial crisis. And in a development that is both symbolic and inspiring, sons and daughters of employees lost on 9/11 are now working or interning at Cantor and its sister company, interdealer brokerage firm BGC Partners, which Cantor merged with its listed electronic bond-trading platform, eSpeed, in April 2008, effectively taking BGC public.

“The best way to honor the people who you love is to care for the people who they loved,” Lutnick told *Institutional Investor* in a recent interview.

Cantor, one of the few remaining private partnerships on Wall Street, won’t disclose its profits. But its CEO’s high-profile pledge to donate 25 percent of the firm’s earnings over five years to the families of fallen employees provides a glimpse, as Cantor gave more than \$180 million from 2001 to 2006, suggesting that average annual profits during that period were about \$140 million. (Cantor would not comment on this estimate.)

These days, Cantor is nearly twice as profitable as it was before 9/11, Lutnick allows. Together with BGC, it employs nearly 4,000 people globally, double the firm’s pre-9/11 head count. In 2008, when many Wall Street firms — including Jefferies Group, a firm that some analysts view as its closest publicly traded peer — suffered severe declines in revenue and profits, Cantor stunningly earned 80 percent more than in the previous year, in part by deftly ridding itself of virtually all of its inventory of risky securities. In July 2007 the firm had \$60 billion in fixed-income assets on its balance sheet, according to Lutnick, much of it mortgage-related securities. By September of that year, the firm had just \$20 billion — all of it government-issued.

Both sides of the Cantor house are resurgent. BGC, which has pulled off a string of acquisitions and hired hundreds of brokers, is now bigger than Cantor’s original interdealer arm ever was, and Cantor Fitzgerald & Co., the firm’s capital markets franchise, has ramped up its institutional equity sales and trading activity and plunged into fixed income. In 2006 it became one of the select few primary dealers authorized to trade with the U.S. Federal Reserve Bank.

Lately that operation has also been on a hiring binge: In the past eight months alone, Cantor Fitzgerald & Co. has hired at least 125 people — and it plans to add more than 100 more as it continues to take advantage of the extraordinary dislocation in securities markets.

“We’re hiring the most talented, experienced people anywhere and giving them the entrepreneurial freedom to run their businesses,” says Shawn Matthews, CEO of the division.

Cantor’s overarching goal is to create all of the business lines that one could have found at the full-service Wall Street partnerships of yesteryear, such as equity research, many types of debt capital markets, leveraged finance and even investment banking, built around Cantor’s core competency of sales and trading. In July the firm even

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Goldman, Sachs & Co.



announced that it was entering the prime brokerage space long dominated by the big banks.

“We’re in the process of becoming the type of firm that disappeared when Wall Street rolled up all those middle-tier firms into a half-dozen giant firms,” explains Matthews. “We’ve seen how that’s worked out for everyone,” he adds wryly.

Wall Street has taken notice. “Looking back eight years ago, it’s difficult to imagine that Cantor’s interdealer business could have come all the way back to being one of the top five in the world, yet here they are,” says Daniel Harris, a Goldman, Sachs & Co. market structure sector analyst who covers BGC.

Lutnick and his top executives cultivate an entrepreneurial spirit and encourage their lieutenants to hire friends and family. That has always been the Cantor way — and it helps make the firm a unique Wall Street institution.

“This can be a tough business, and there can be long hours,” explains Lutnick. “So why not surround yourself with friends, family members, people who you genuinely want to be around? I tell people, ‘Let’s make money, and let’s have fun doing it.’”

That environment resonated with Matthews, a former hedge fund manager who joined the firm four years ago as a mortgage-backed-securities trader and quickly rose through the ranks. “From the day I arrived, I felt like this is the type of place you want to stay for the rest of your career,” he says. “And that is very important to me.”

For some employees, though, working at Cantor can summon complex emotions. A case in point is Tom Shea, whose brothers Joe and Dan were Cantor executives who perished on 9/11. Shea, 53, joined the firm a year ago after more than two decades on Wall Street, most recently working as a mortgage-backed-securities salesman at Bear Stearns Cos. at the time that firm all but went belly-up.

“I didn’t necessarily join Cantor to carry on the family tradition,” Shea explains. “I joined because Howard and Shawn were serious about putting together a high-quality debt capital markets operation.”

Still, Shea wondered whether he could handle working for a firm whose name was synonymous with his family’s tragic loss. “I thought about it and realized this isn’t an emotional burden,” he says. “This is a chance to continue the legacies of my brothers, who both loved to work here, and to make an impact on an organization in a professional and positive way.”

On the morning of 9/11 after Lutnick dropped off his eldest son, Kyle, for his first day of kindergarten at Horace Mann School on Manhattan’s Upper East Side, reports of the World Trade Center attack began hitting the airwaves. Lutnick made it by car to the entrance of the first tower just moments before it collapsed. In the 2003 book by Tom Barbash, *On Top of the World: Cantor Fitzgerald, Howard Lutnick, & 9/11: A Story of Loss & Renewal*,

Shawn Matthews, CEO of the firm’s capital markets franchise, has ramped up Cantor’s institutional equity sales and trading and plunged into fixed income while sidestepping the mortgage securities rout



CAPITAL MARKETS

Lutnick described his state of mind as he walked uptown in a trance, caked with soot and ash. Everything he had built, so many people he knew, including his younger brother, Gary, a Cantor partner, were gone. “I’ll move my family to Montana and figure out a new life there,” he thought.

But somehow, by the middle of the day, the CEO had resolved to keep the firm going. The London office was game to take on whatever might come — and as the day wore on, it emerged that several key people, including general counsel Stephen Merkel, head of operations Tom Trillo and chief technology officer Joe Noviello, were alive and

enabled the firm to carry on in the face of what seemed like certain extinction: the London office, headed up at the time by Lee Amaitis and a key lieutenant, Shaun Lynn, and the U.S.-based institutional equity business, which was run by Phil Marber, who retired from Cantor earlier this year.

London wasn’t just key to the survival of the firm — London *was* the firm, at least in terms of its core interdealer brokerage business. With the U.S. bond markets set to reopen on Thursday, September 13, London staffers assumed the various roles and jobs of their missing colleagues — at the time, many still hoped that some would be found



Heidi Olson rejoined Cantor Fitzgerald two days after 9/11 and now serves as chief administrative officer of the institutional equity business. Tom Shea, who lost two brothers — both Cantor executives — came on board a year ago to sell mortgage-backed securities after more than two decades on Wall Street

accounted for. Fate had intervened: Merkel was delayed in getting to work that morning because he had stopped to inquire about a gym membership. Trillo was still driving to work when the towers fell. Noviello was away on a fishing trip.

From the start, Cantor worked to rebuild for the sake of fallen colleagues’ families. “That’s the only thing that got us through,” says Lutnick. “The whole mission revolved 100 percent around them.”

Even so, he realized that to survive, Cantor would have to thrive. “I knew right from the start that we couldn’t keep the place going just for the sake of keeping it going,” Lutnick says. “We had to be really, really successful. Because think about it: We had 658 families to look after.”

Some chroniclers have linked Cantor’s resilience in the wake of the attacks to its eSpeed platform, but it was two other assets that in fact

alive — and set about untangling a seemingly endless chain of logistical knots. The firm had already executed a few thousand trades worth billions of dollars in the brief time preceding the terrorist attack that Tuesday morning. In less than 24 hours, the London office built a functional Treasury clearing system to support eSpeed.

Back in New York the institutional equity business was up and running surprisingly fast — it began kicking in sizable revenues almost immediately. What was left of the firm was now operating in disparate locations, with employees gathered in a disaster recovery space in Rochelle Park, New Jersey; at Lutnick’s Upper East Side apartment; at a Darien, Connecticut, sales office; and in conference rooms at Cantor’s law firm, Morgan, Lewis & Bockius in New York. A crisis center for families was set up at the Pierre Hotel near Central Park. Financial media company Bloomberg lent space, and the firm



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sublet an unused trading floor in UBS's Park Avenue offices. Right away, Cantor began hiring.

On Thursday, September 13, one former employee, Heidi Olson, who had left Cantor in the spring of 2001, came back to work. "I knew that people were gathering in these makeshift quarters, and I just showed up," says Olson, who had worn many hats at the firm during her six-year tenure there, including helping to launch eSpeed. She now serves as chief administrative officer of the institutional equity business. "We were all insane with grief, but at the same time, there were so many things to figure out and deal with, you just wanted to do everything in your power to help."

Many head traders and portfolio managers on the buy side of the business considered their counterparts at Cantor as friends and wanted to help in any way they could too, which was another big factor in helping to save the firm. Indeed, when the equity markets reopened on Monday, September 17, Cantor was deluged with so many trades that the firm's still-fragile infrastructure was nearly overwhelmed. After making it through that first week, Cantor clearly had a fighting chance.

Slowly, the firm began to ramp up its interdealer brokerage business. That effort was led by Daniel LaVecchia, who had built out Cantor's foreign exchange desk in London and was stationed there when the Twin Towers fell. After returning to New York in 2002, he began aggressively recruiting new brokers. One of his earliest hires was Billy Clark, who had signed on to work on the currency options desk before 9/11 but whose start date was later in the fall of 2001. Everyone already working on that desk was killed.

"I remember calling him up and asking, 'Are you still coming?'" recalls LaVecchia. "And he says, 'Yeah, I'm still coming.' I told him, 'Well, I know I didn't hire you to be the boss, but guess what? You're the boss.'"

By the first anniversary of the attacks on the World Trade Center, Cantor had made great strides in rebuilding its front and back offices and was delivering on its pledge to provide the families of colleagues who had been killed with 25 percent of the firm's profits for five years and health care assistance for ten years. The company also established 9/11 as a charity day, with all trading revenue earned that day earmarked for nonprofit organizations. The first charity day raised more than \$5 million.

"It was gradual, but by late 2003 things started to return to normal — or close to it, anyway," recalls LaVecchia, who says he worked 20-hour days for weeks on end, fueled solely by adrenaline and the desire to provide for the families of his deceased friends.

Adds Lutnick: "I'd say after about two years we had rebuilt the car. And so at that point it was time to take it for a ride and see what it could do."

In London, Cantor's interdealer business, run by Amaitis and Lynn, was not only thriving, it was once again challenging competitors like ICAP, also based in London, and New York-based GFI Group for dominance. But that business and the other side of the house, sales and trading in fixed income and equities, which in the

old days were under one roof, were now spread out and competing for resources and Lutnick's support.

In 2004, Amaitis and Lynn approached Lutnick about carving out what by then had become primarily a London-based interdealer business. Lutnick and his fellow partners agreed to break Cantor in two by spinning off the interdealer operation in August of that year, with Cantor Fitzgerald keeping a majority stake in the new business — named BGC Partners, based on the initials of Cantor co-founder Bernard Gerald Cantor. The firm had never taken on much debt, but in early 2005, Cantor borrowed about \$380 million — "You might recall that was an excellent time to borrow money," Lutnick points out — and BGC Partners was born.

Almost immediately, BGC began snapping up smaller rivals. In May 2005 it acquired Maxcor Financial Group, parent of interdealer brokerage Euro Brokers, which was based in the South Tower on 9/11 and had lost 60 people.

The message had been sent: BGC meant business. Several more acquisitions followed between the fall of 2006 and this summer, among them Aurel Leven Securities in France, Marex Financial's derivatives business and, most recently, Liquidez DTVM in Brazil.

At about the same time that BGC was being created, Cantor landed a talented mortgage-backed-securities trader, Shawn Matthews. A savvy finance pro, yet easygoing and quick with a laugh, Matthews, now 42, started trading bonds in the early 1990s as a clerk for investment bank Wertheim Schroder & Co. Before long he was trading the firm's own capital. Soon he hired a clerk to work for him but eventually left to co-found a global macro hedge fund, Alchemist Capital Management. After leaving the fund, Matthews joined Cantor to handle the trading of new mortgage-backed securities. In 2006 he was promoted to head up the desk, and a year later he was running all of fixed income.

"Shawn is the spirit of both the new Cantor and the old," says Lutnick. "He gives his people the room they need to run their businesses, but he's also right there in the trenches with his sleeves rolled up."

Cantor had by then come fully back. The firm's five-year donation of 25 percent of profits had surpassed expectations. And both Cantor and BGC have raised tens of millions of additional dollars for a variety of causes through their annual 9/11 Charity Day: With celebrities and professional athletes lending a hand on BGC's trading desks, all commission revenues are donated to a wide range of nonprofits around the world. Last year alone the event raised \$7 million.

For a host of reasons — a vacation, an early client meeting, a child's first day of school — about 300 of Cantor Fitzgerald's New York employees were not in their offices on the top floors of One World Trade Center when the first plane struck the Twin Towers. One Cantor employee, David Kravette, had gone down to the lobby to collect a visitor at about 8:40 a.m.

"I continue to be amazed at our comeback," says the 48-year-old, who after 9/11 switched from helping to run eSpeed to working as a

CAPITAL MARKETS

rank-and-file equity sales trader. The whole culture of closeness that the firm had before tragedy struck — hiring brothers and buddies — has been recreated.

“Honestly, I never thought I’d see that again,” continues Kravette, who has been friends with Lutnick since junior high school and is part of a group of roughly 150 New York employees who were at the firm pre-9/11 and still work at either Cantor or BGC. The company has moved on to a new chapter without sacrificing its distinctive culture.

Cantor’s chief executive credits the firm’s rebound to human talent: “We’ve brought in incredible people,” asserts Lutnick.

The camaraderie carries over to Cantor’s trading floors, where the buzz is intense but friendly. One noticeable aspect of life at the firm is that the concept and rituals of seniority are of little consequence. The salesperson with only a few years of experience who helps the team by bringing in business is on par with the guy who boasts 20 years of rain-making. CEO Matthews, for example, sits in a glassed-off office adjacent to the fixed-income trading floor located on East 59th Street — not around the corner in the firm’s Park Avenue executive suite — and spends as much time on the floor as in his office. Traders and salesmen are free to pop in as

that’s supposed to stop when you get married and have kids and move to the suburbs. Not here. We’re a family.”

About two years ago this aspect of Cantor’s culture took on new meaning: Kids of employees who perished on 9/11 began coming to work for the firm. They took posts as interns and entry-level clerks. One works on the equity desk. Another interned briefly at BGC while still in high school. All of them were made to feel accepted in a way unique to an industry that isn’t exactly known for warm embraces.

Although the buck stops with Lutnick, one result of Cantor’s unusually close-knit structure is an ongoing vigorous and open exchange about the business. This paid off handsomely in the spring of 2007, at the start of the credit crisis, when Lutnick frequently found himself discussing the worsening economic situation with Matthews, who understood the mortgage market as well as anyone on the Street.

Together they arrived at a stark conclusion that changed the game for Cantor as the crisis intensified: The firm’s entire inventory of legacy mortgage securities had to be taken off the books. By the fall of that year, Cantor had rid itself of all of these assets and, with much of its debt repaid, shifted its focus to helping clients execute transactions in one of the most

clients knew they could trade with us and get treated fairly.”

Just a few years ago, for example, Vanguard Group wasn’t doing much trading with Cantor. But that quickly changed. Cantor “stepped it up late last year and early this year, when we saw hardly any liquidity,” says Greg Nassour, co-head of investment-grade corporate bonds at the mutual fund firm, which runs about \$100 billion in actively managed fixed-income assets. “That shows up in the amount of trades we do with Cantor.” Going forward, he adds, “I see doing more trading with the firm.”

Although the crisis has created a once-in-a-lifetime opportunity to hire top talent, not all of Cantor’s new additions have been displaced from fallen banks. Matthews recently hired Goldman Sachs trader Marty Teevan to head up high yield and distressed debt. Teevan has in turn brought more than 25 people on board.

So how did Cantor get a Goldman employee to jump ship? Teevan, now 40, is the clerk that Matthews hired back in the day at Wertheim. They stayed in touch through the years after Matthews gave him his start. More than anything, though, Cantor offered Teevan a chance to build his own business, run it his way and earn a clear-cut percentage of the profits.

“Cantor is known for the quality of its people,” he says. “We’re bringing in terrific talent across sales, trading and research.”

And in true Cantor fashion, Teevan — who worked at UBS before Goldman — recently hired a former colleague from the banking giant, a salesman named Kelly Robinson who was a groomsman at Teevan’s wedding and is the godfather of one of his kids.

It’s a mantra that Cantor has always followed: Hire people you know and love. On 9/11 this tradition exacted an excruciating price. But in the aftermath it helps explain exactly how the firm has been able to carry on, and why, against all odds, Cantor is on top of the world again. ●●

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—Heidi Olson, Cantor Fitzgerald

they please. Many employees golf together on weekends.

“People genuinely care about one another,” says Olson, the former Cantor employee who rejoined the firm two days after 9/11. “When you’re 22 you hang around with your colleagues after work, but

tumultuous markets of all time. As firms like Bear Stearns, Lehman Brothers Holdings and Merrill Lynch & Co. got into trouble, Cantor picked up market share.

“We weren’t trading our own money, except for very selective situations and only to facilitate client orders,” notes Lutnick. “So

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