



## Lee Barba

Investools' merger with thinkorswim has raised the investor-education bar.



Investools' 2007 merger with online brokerage thinkorswim brought the education giant together with one of the world's premier trading platforms. According to CEO Lee Barba, the two companies have combined to create the ultimate investor-education vehicle, and Investools' live events and global aspirations have made it the major player in the fast-growing sector. Barba sat down with *EQUITIES* to discuss the merger and how "the people, the culture, the technology, and the service" have made Investools the new industry standard.

**BY JON THIBAUT**

**EQUITIES:** Can you go over your background for our readers?

**BARBA:** I started on Wall Street back in 1975 and worked in all different parts of the securities industry, both domestically and globally. I was actually based in London in the early '90s with Bankers Trust, and was involved at that time in what was known, and still is, as the OTC derivatives market, which was really just growing up at that time, and now, of course, is where all the action and activity is.

Investools' history goes back to 1983. The original company, which went public in the early '90s, was called Telescan. Investor education and online trading, these are old ideas to our company, and through a series of mergers, I came in as the CEO in 2000 of Telescan. It was a public, NASDAQ-traded company at that time. We had begun to develop a business-to-business model where we were providing our tools to corporations and media companies, including AOL, BusinessWeek, CNBC, Citigroup, American Express, etc. We were a major competitor of MarketWatch at the time. They've gone on to be acquired, as you know, by the *Wall Street Journal*, and then by Rupert Murdoch. But in 2000 through 2003, we really were one of the two companies to whom the big companies said, "Look, I need to license your tools and put them on our financial website." So we had great customers, and so did MarketWatch.

In 2001, we said, "Let's go back

to our roots—be an education-based company for the self-directed retail investor." We gave up all those license agreements—or many of those companies ended the license agreements because they couldn't afford them—and since then, as Investools, we've been 100% focused on the retail investor and developing a continuing-education curriculum that runs from six-month to two-and-a-half-year courses.

On the education side alone, we have about 525 people, and we did over \$250 million in sales in 2006. In 2007, because we lowered our prices, the total sales will be over \$200 million for education—and we're on a run rate through the last four quarters—but that's because we're scaling to not only be the leader but the standard in investor education. And then, introduce those students, of which we have the largest number of graduates, into the best trading technology in the world—which gets you to thinkorswim, a merger we announced in September of 2006 and closed

in February of 2007. The rest is history.

**EQUITIES:** What attracted you to thinkorswim?

**BARBA:** Investools' most active students, called PHDs—the Program of High Distinction—started telling me, "Lee, you've got to meet [thinkorswim founder] Tom Sosnoff. You've got to get to know this group over at thinkorswim." When students call and e-mail me, I act. So I called Tom and [thinkorswim co-founder] Scott Sheridan and asked if they would meet with me. Lots of online brokers talk about investor education. Honestly, to this day, I've never met somebody who runs an online broker and believes in it, other than Tom Sosnoff and Scott Sheridan. Tom and Scott are traders, and they understood exactly what we believe in about education.

You have no business trading in these volatile markets without an education partner, a coach, workshops you can attend, hotlines that you have access to—and Investools is here to give it to you. Everybody will talk to you about investor education. It's become quite a fad to be a senior manager or online broker and say, "Oh, yeah, investor education, that's really cool." I can guarantee you it wasn't, until we did the thinkorswim deal.

Our investor base has changed dramatically in the last year because connecting education to sophisticated trading technology is a model that we were the first to



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put together. It's the model we believe in more than anyone else. It's still called Investools as a parent—"SWIM" is, as you know, the NASDAQ ticker. And that model's going to be hard to copy because we run both education *and* brokerage as an integrated product offering for those students who want it, and we have run both profitably. Most people trying to get into education run it as a loss leader and give away the education products for free. The demographic that we have in Investools and thinkorswim is the highest in the market—an average household income over \$125,000, trading over 200 times a year, with an average account size of about \$44,000. These are tremendous metrics.

**EQUITIES:** Thinkorswim is widely regarded as the best options-trading platform. Do you think it's the fast-paced nature of options trading that draws people to it?

**BARBA:** The people that founded it, manage it, and have built a staff that's now over 100 strong are professional traders. They come out of the exchanges, for the most part—they don't talk about trading, they actually trade. Thinkorswim is doing new releases and upgrades to its software that are phenomenal, and nobody else in the industry is updating and adding functionality at the rate and of the quality that thinkorswim does. That's the key differentiator. It's the technology. It's designed for an options trader, for quality and speed of routing, for ease of execution.

Without boring you with details, we focus on what we call defined-risk trades. We certainly don't believe in speculating. "Defined risk" means that the analytics are on the thinkorswim platform to look at a trade before you enter it. It'll give you

the probability of return. It's giving you all the potential analysis and information you need to understand the trade you're about to execute. That's not true for a lot of other platforms.

So it's the people, the culture, the technology, and then service. It's what we call the trade desk. If you are a customer of thinkorswim, it's not just opening an account and feeling that you've got an exciting experience with the combined entity—if you want the education as well as the trading—but the ability to call into that trade desk. And you can call in and you'll see what happens. You're talking to somebody who's a professional trader, who is going to give you direct, immediate service, whether it's setting up a trade or helping you analyze a trade. You're not sending an e-mail to somebody and waiting three days to see if they respond. We put a lot of money and investment into that kind and level of customer service that makes us unique.

Thinkorswim was a relatively modest, niche options platform in 2006. At the end of 2007, we had 57,775 active accounts, or 123,150 total accounts—that's 157% higher than Dec. 31, 2006. That's phenomenal growth. DARTs grew 280%. If you look at the other online brokers, you're not going to see growth like that. Client assets grew 134% year-on-year, from about \$900 million to \$2.58 billion. So these numbers are getting a lot of people's attention, and we're seeing the same on the education side.

**EQUITIES:** I don't know if you knew this, but Tom Sosnoff and [thinkorswim partner] Tom Preston write for *EQUITIES* sometimes.

**BARBA:** Yes, I did. I saw that.

**EQUITIES:** Are they as active in the company as they were before the merger?

**BARBA:** Absolutely, yes. We're all active.

**EQUITIES:** Can you give me an overview of some of your courses? You obviously must have an options course.

**BARBA:** We do. In fact, we point out to investors every quarter that, although the name of the company is Investools, other companies have started up and actually have "options" in their name, and so customers sometimes get confused and say, "Oh, those are options experts." Actually, 75% of our education revenue is from students purchasing options workshops and online courses. We're the biggest options education company in the world. It's just not in our name because we have a much broader mandate—we do stock options, futures, and forex education. And thinkorswim's DARTs, or daily average revenue trades, which is the metric investors track every month, are 80% derivatives-based, of which the majority is options. Options markets have been the fastest-growing financial markets.

The latest numbers I've seen for last year is 41% growth in options volumes, overall. And we have been the leading online broker for options experts and educated investors, so we're extremely well-positioned for these market trends. Tom and Scott were floor traders on the CBOE, so it's not something we developed off of market research because it's a cool new product. It really is the core DNA of the company.

**EQUITIES:** Is Investools online only?

**BARBA:** No. We offer students what we call our home-study programs, and they can take all our courses online. They don't have to attend a live event, but the vast majority of our students do, and we encourage them to do so. It's a better, more complete learning process. So we do both live and online. Pricing is the same. I don't think we've ever published a number, but a vast majority do the live training at some point during the program, and they're encouraged to do so.

**EQUITIES:** Where are the live events held?

**BARBA:** At this point, including Canada, we're probably in 65 to 75 cities. We'll be in major cities, like New York, pretty close to once a month, with a two-day workshop and our advanced workshops. In smaller cities, we probably go once a quarter. We run a schedule that suits the students' needs, and we graduate approximately 10,000 graduates a quarter, 40,000 a year.

**EQUITIES:** Like you said, the investor education movement seems to be getting very popular. What do you do that's different?

**BARBA:** Service is at the top of our list. In fact, in '08, our No. 1 objective is to improve service. On Feb. 5, we launched the brand-new Foundation Course—that's the entry-level course. We modified the curriculum. We made it even more interactive, with access to videos and audio. We use WebEx training sessions, which are held all day. We archive them, and for those people who are at work and can't access them while they're live during market hours, they can listen to it in the evening. It's the curriculum, which goes from the Foundation Course all the way up to a two-and-a-half-year PHD course, where you're learning advanced technicals, advanced options strategies, you're getting access to unique instructors, including from thinkorswim. Nobody else can offer that combination of an integrated education and trading education.

Everybody is trying to muddy up the waters about investor education and say, "Oh, we have all those products." Well, there's a big difference between paid and free. Anybody can put a webinar on their site and call it education. How many people are attending? We have thousands of people attending some of



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our WebEx events.

Everybody's out there talking about coaching. So, okay, you're doing a lot of coaching. That sounds really great. How much? And I have yet to see anybody give an answer to that, because it's *de minimis*. I mean, maybe they're doing 1,000 or 2,000—they're not doing 250,000 sessions a quarter. So we clarify the scale of our operations with investors and in interviews.

The next differentiating factor is that many of these firms are outsourcing education. With Investools and thinkorswim, it is *our* IP, it is *our* developers who are listening to you. Many firms are outsourcing. Go to their site, look at their coaching product. Look at the area code that you call—you're not calling the home office of the online broker.

**EQUITIES:** Are there any specific technological issues the financial industry is facing and dealing with right now? Any big breakthroughs? Everyone has fast band-

width. Everyone has Internet access. Is it just going to get faster? Is it going to get better?

**BARBA:** More global. Back in 1994, I lived in London and ran one of the top banks in the world's European offices, so I understand global, and I've been saying it since 2000. It's not happening as fast—retail with online brokerages—as I would have hoped, but it seems to be coming together. So in certain countries—Australia, mainly the English-speaking countries, more in Asia than in Europe—it's happening. Forex is happening. Retail FX trading is about at the same spot in 2007-2008 that options were in 2001 through 2003. It's a little bit Wild West. It needs to get gentrified. And actually, we got into forex because we were invited by forex dealers who understood that without education for the retail investor, they couldn't grow that market.

**EQUITIES:** Tell me about your recent move to Canada.

**BARBA:** We got everything up and ready to take accounts the first or second week of January. We're very excited. Tom Sosnoff was up there at a conference and had a tremendous turnout in Toronto. Investools, on the education side, has been active in Canada for years. We have thousands of students up there that we're now alerting to the potential to convert to thinkorswim. In Canada, there's a different regulatory framework—it's not as aggressive in terms of

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options but further ahead in terms of forex. The option functionality of thinkorswim software, web-based and mobile, is way ahead of other regulatory-approved online brokers in Canada. And as I said earlier, we're looking at some things in Asia.

**EQUITIES:** I want to go over some specific stuff that you teach. What is the Investor Toolbox?

**BARBA:** Once you become a paid student, you get six months' access, and a username and password to the Investor Toolbox, or what we now call Investools Online. It's the site, which is password protected because it's paid, where you are doing the analysis of the stock or option—and we have forex, as well, as I said before—and receiving your education. So the site itself is set up in an education tab where you take the courses. There are tests, and as I said before, video and audio. And there's the toolbox, where the student is using analytical tools to review a stock or option and putting it through various analyses.

And then there's the community. We have, as of the last metrics, 102,800 active subscribers in education, and they are all in the community section. They are able to connect with each other and talk about their education and their portfolio—whatever it is they want to talk about—in our online community. We're going to be making some giant strides where community matches up with the world of investing. Keep your eyes peeled for a release.

**EQUITIES:** What kind of experience does the typical student have before joining the program?

**BARBA:** Well, we don't typically describe ourselves as a course for beginners, although increasingly we're seeing that as our brand grows and people hear about our company. The Motley Fool, Street.com, and I see on your site Suze Orman—looks like somebody just interviewed her—we think of that as personal finance because they'll talk about investing, sure, but they'll give you tips, they'll talk about your credit cards, a bank account. That's personal finance. We don't talk about those things. We're for investors, and typi-

cally for an investor who does have a brokerage account. So personal finance is not our bag. We're more intermediate, but with this latest course we launched, it builds the building blocks for you to go on. So that's our market segmentation. Close to a third of our students are women. And as our students go to continuing education—in options, advanced options, technicals, forex—we're seeing women progress at a higher rate into the advanced courses than men.

**EQUITIES:** Women are the fastest-growing demographic of investors.

**BARBA:** Huge. This subject of women and investing is huge. I'm shocked I don't see more on it. We've been focused on it for three years. Here's a statistic for you: By the age of 55, over 70% of women in America will be head of household for purposes of finance, meaning they're in charge of the money. And that can take place for any number of demographic reasons—death of spouse, divorce, an increasing number of empty nesters, or different lifestyles.

We talk to a lot of demographers, and there's a question demographers ask: "Who is the smartest, wealthiest person in America?" A couple of years ago, they told me, "Right now, it's a woman. She's about 28 or 29 years old, and she lives in Indianapolis." They were moving west. They were still north of the Mason-Dixon Line, female, younger, and college educated.

Last August, I talked to the same demographer, and he said, "Well, it's way more complicated now. It's more Dallas." That's a big shift from Indianapolis. He says, "It's still a woman, under 30, with even more advanced education, but they are moving southwest." We need to understand these trends in order to create great education products that are relevant. Women in investing is a huge focus for us.

**EQUITIES:** Where do you find your students?

**BARBA:** Our marketing campaigns are quite sophisticated. In fact, before I took this call, I broke out of a meeting with Ogilvy [& Mather], one of the biggest [advertising] agencies in the world. We are what's known as a direct-response marketing company. We use television and online as the primary sources of our marketing. We spend substantially more money than Merrill Lynch—just to give you an idea of the scale—on advertising. That's because we're building a brand. Typically, you spend more when you're in that phase.

In response to our ads on TV or online, you call the 800 number or e-mail us with interest, and we invite you to a free preview. You can go to our site and see an online preview, which introduces you to our product. You can click to a landing page and buy right online. The majority of the students click on "I Want to Go to a Live Event," and it'll show you

Thinkorswim founder Tom Sosnoff plays an integral role in Investools' philosophy and success.



With Investools and thinkorswim, it is *our* IP, it is *our* developers who are listening to you. Many firms are outsourcing. Go to their site, look at their coaching product. Look at the area code that you call—you're not calling the home office.

a schedule of when we're going to be in your area. You can register and come see one of our instructors provide a free class, at which point you can sign up for the paid course.

**EQUITIES:** You have a big event coming up in August?

**BARBA:** Yeah. It's August 9th to the 11th in Las Vegas at the Bellagio. It's a three-day event—starts on a Sunday night and ends Tuesday at lunch. These are huge, very high-quality events that have con-

sistently sold out. We anticipate 1,700 attendees. It's usually our higher-end students, and we're running breakout sessions all day long with all of our instructors and coaches.

**EQUITIES:** Can anyone go, or just students?

**BARBA:** Lots of people bring friends. As long as they register and pay the \$900, that's fine—anybody can come. It's going to be a lot to absorb if you haven't been through our courses, but I'd say about 10% of the attendees are newbies.

**EQUITIES:** How well do your students do after finishing the program, and what's your barometer for their success?

**BARBA:** We're an education company. We're not guaranteeing people an income. One, it wouldn't be compliant. Two, it really depends on the student—what amount of time they spend in the training. And I'd say the vast majority of our students, they pick it up, they drop it, they pick it up, they drop it. They're not obsessed with it. By the time they hit the thinkorswim platform, you get the more obsessive, active traders who behave in a very mature way and who are being taught defined risk strategies. On the education side, we talk to them all the time about setting expectations. The first step of the new course is called Learning to Be an Investor, which is about the psychology of investing—managing your emotions, setting a plan, your goals. All we are giving you is a decision process that should improve your results, but it doesn't guarantee the results. We tell students from day one that we're not here to teach you how to speculate. We're here to teach you how to invest and make the best decisions you can. **E**

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## EQUITIES Magazine 2008 Conference Schedule

**April 18**  
57th Anniversary  
Spring Conference  
Princeton Club / NYC

**April 24**  
Third Annual  
Mining/Resource Conference  
Princeton Club / NYC

**June 19**  
EQUITIES Summer Conference  
New York Athletic Club / NYC

**October 3 and 6**  
Third Annual  
Transatlantic Conference  
NASDAQ MarketSite and  
London Stock Exchange

**October 30**  
EQUITIES Fall Conference  
Princeton Club / NYC

**December 5**  
Winter Discovery Day XVI  
Princeton Club / NYC

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