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# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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THE WALL STREET TRANSCRIPT

## COMPANY INTERVIEW

### GREGORY F. HOLD

Hold Brothers On-Line Investment Services LLC

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# Hold Brothers On-Line Investment Services LLC



**GREGORY F. HOLD** is Chairman and Chief Executive Officer of Hold Brothers On-Line Investment Services LLC. In 1992, he started day trading. His exceptional talent and business skills put him on the fast track, and by 1994, he was managing branch offices and generating 85% of the company's volume. In the same year, he, along with his brother Steven, had formed their own direct access trading firm. Hold Brothers developed one of the industry's first

one-on-one mentoring programs and has a generous incentive structure in place to reward professional excellence. Mr. Hold has established a dedication to technological advancements that has put his traders in the driver's seat. A high ratio of the company revenue is committed to technology and it shows in the excellence of Hold Brothers' exclusive Graybox™ software. Mr. Hold received Bachelor of Arts degrees from Rutgers College in both Physics and Economics, and attended graduate classes in Computer Science at Fordham University. He is licensed by the NASD for Series 7, 24, 55, 63 and 28.

## SECTOR – FINANCIAL SERVICES

**(AJW607) TWST: May we start with a short overview of your operations with a brief history?**

**Mr. Hold:** Founded in 1994, Hold Brothers employs or hosts about 750 professional, in-house traders around the world. We are FINRA-registered, self-clearing and have an affiliate that is a New York Stock Exchange registered broker-dealer.

**TWST: What are your main profit centers and sources of revenue?**

**Mr. Hold:** Our main sources of revenue are proprietary trading profits and commissions from day trading customers.

**TWST: Would you comment on your technology and its impact on your operations?**

**Mr. Hold:** We have designed our Graybox technology to provide unique solutions to the

ongoing challenges that day traders face. Developed in the late 1990s, Graybox is an order execution and analytics software suite that is one of the most widely used platforms in day trading. Graybox ensures extremely low latency and is highly adept at assisting traders in grabbing market liquidity.

**TWST: Do you license this technology to others?**

**Mr. Hold:** We only offer Graybox to our proprietary and retail traders. Currently, no third-party firm has it.

**TWST: How do you gauge the current market temperature and the effect it has had on your overall focus and strategy?**

**Mr. Hold:** Day traders act with reference to a very short time horizon. There are instances in which they are only concerned with the next two

minutes, because that's how long they might hold a position. Our traders' profits are rarely affected by middle- and long-term market trends.

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***"Our technology is specially suited for the needs of the active trader. It ensures low latencies and possesses unique features and tools to help traders grab market liquidity. It also provides instant access to all important liquidity sources. Our technology is specially geared to the demands of international traders."***

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**TWST: How would you characterize your risk management to mitigate exogenous shocks?**

**Mr. Hold:** We are constantly updating our risk management and compliance software and improving it with new and enhanced features. Trained risk managers, both in the US and overseas, are always on the lookout for signs of undue risk, changes in investor behavior and risky patterns of trading. We've certainly had to keep up with the times regarding the boundaries that traders can push.

**TWST: What is the profile of a typical trader at Hold Brothers?**

**Mr. Hold:** The vast majority of day traders are male, college graduates. The typical trader is probably an aggressive, bright person who has a passion for the markets and competition.

**TWST: From a competitive standpoint what gives you the edge?**

**Mr. Hold:** Our technology is specially suited for the needs of the active trader. It ensures low latencies and possesses unique features and tools to help traders grab market liquidity. It also provides instant access to all important liquidity sources. Our technology is specially geared to the demands of interna-

tional traders, taking into account the bandwidth and latency constraints associated with trading in many locations around the globe.

**TWST: How do you draw traders to your company?**

**Mr. Hold:** We have a strong 15-year track record and an exceptional reputation. Consequently, we are able to attract a large percentage of our new business through referrals. Because we are a self-clearing broker-dealer, we have cut out the middle men and are able to offer extremely competitive pricing. Plus, we control our own software so that we have the ability to react immediately to changes in the market. Furthermore, when we identify a potential feature that will give traders a competitive edge, we can program these enhancements into our software instantly, instead of relying on a third party with its own agenda.

**TWST: Is equity trading your primary focus and do you dabble in foreign markets?**

**Mr. Hold:** We primarily trade equities, and while much of our business is conducted overseas, we do not invest in foreign markets.

**TWST: Which issues within the realm of compliance and industry regulation impact your operations?**

**Mr. Hold:** As FINRA and New York Stock Exchange members, we carefully monitor for abusive trading practices and suitability issues. We also ensure that our traders trade in accordance with the Reg-T margin requirements.

**TWST: As you look ahead, what are your major areas of improvement and growth?**

**Mr. Hold:** We are expanding internationally, but don't see our former competitors growing in the global arena to the same degree. We, on the other hand, expect to continue expanding overseas. Furthermore, we're ideally suited to handle black box trading, since this demands an

extremely competitive pricing structure that only a self-clearing firm can offer. In addition, black box trading demands sufficient trader control over technology. Our traders benefit from our New York Stock Exchange membership, and our direct access to the exchange saves them precious milliseconds of latency.

**TWST: Would you elaborate further on the black box concept?**

**Mr. Hold:** Black boxes are automated trading systems that execute in electronic markets. They're programmed by traders and developers and are typically characterized by enormous volume. Black box results can be described as either feast or famine; they either help generate substantial profit or quickly become obsolete.

**TWST: When considering your prospects for the international markets, which areas do you find to be the most attractive?**

**Mr. Hold:** There's a lot of growth in developing countries, where day trading is a relatively lucrative business. We see opportunity in Asia, South America, Africa and Eastern Europe.

**TWST: Would you describe the scenario for the next two to three years? What is the strategy for success?**

**Mr. Hold:** In the last 12 months, we have doubled our trader count, while many of our competitors have lost traders or gone out of business. We expect to continue capitalizing on the uncertainty in the day trading market by providing traders with our proven set of tools and solutions that help stack the odds in their favor. We also plan to expand our services and technologies to forms of proprietary trading unrelated to day trading.

**TWST: What is the average revenue per trader and how are they compensated?**

**Mr. Hold:** Traders are typically given a percentage of profits earned above a base amount. We have traders who make next to nothing and we have traders who make \$2 million or more a year.

In some areas of the world, a trader who earns as little as \$200 a month might consider him/herself very successful because he/she can pay the rent and other expenses while continuing to learn and move forward on a path to becoming a better trader. (However, this same \$200 a month doesn't stretch very far in an expensive place like Manhattan.)

**TWST: Would you comment on your challenges and concerns?**

**Mr. Hold:** Every few years, the day trading industry either takes an enormous hit or experiences a great boom. We take the biggest hits when regulations change against us, such as the one recently imposed by the New York Stock Exchange Hybrid Market; this almost decimated the New York Stock Exchange specialists. These types of changes can really eat up our margins.

**TWST: How is your management team structured? What do you consider as the strengths and advantages of the key members of your team?**

**Mr. Hold:** Our team is primarily comprised of seasoned professionals who work well together and have been with the company for many years. We have a three dimensional business: we are a technology company, we are a broker-dealer and we are a trading company.

**TWST: Would you comment on your own personal expertise and what keeps you busy on a day-to-day basis?**

**Mr. Hold:** Throughout my 15 years at this company, I have gained expertise in the develop-

ment of technical infrastructure and in managing programmers. I also have acquired significant experience in negotiating with trader groups. In addition, I supervise our firm's operations and accounting functions and have developed my skills and experience in dealing with corporate communications, both external and internal.

**TWST: How does the balance sheet look to you? Are you profitable?**

**Mr. Hold:** Yes, we are profitable. But the New York Stock Exchange's conversion to the Hybrid Market did eat into our margins. We have done an excellent job, however, at recovering lost revenue and margins, and we expect to continue building upon our rapid trader growth.

**TWST: Do you have the capital structure in place to take you to your goals?**

**Mr. Hold:** Yes. We currently have all the capital we need. We have placed more than \$10 million of net capital with our broker/dealer and have the ability to add to this amount if necessary.

**TWST: Would you sketch a realistic picture of your company two to three years down the road?**

**Mr. Hold:** We expect to continue expanding upon our market share with the distinctive advantages we provide in terms of self-clearing and

our unique control over our own software. In the years to come, we expect to increase the number of our traders, expand our client base to offer our technology and services to investors employing trading styles separate from those relied upon by day traders, and build upon our success in the development and distribution of black boxes.

**TWST: What does esoteric trading entail?**

**Mr. Hold:** Esoteric styles are investment styles employed by comparatively few people. These styles typically rely upon distinct needs in terms of software, operational capital, significant manpower and various other support requirements.

**TWST: Thank you. (WT)**

**GREGORY F. HOLD**

**Chairman & CEO**

**Hold Brothers On-Line Investment Services  
LLC**

**Newport Tower**

**525 Washington Blvd.**

**Suite 1400A**

**Jersey City NJ 07310**

**(201) 499-8741**

**(201) 499-8750 - FAX**

**[www.holdbrothers.com](http://www.holdbrothers.com)**

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