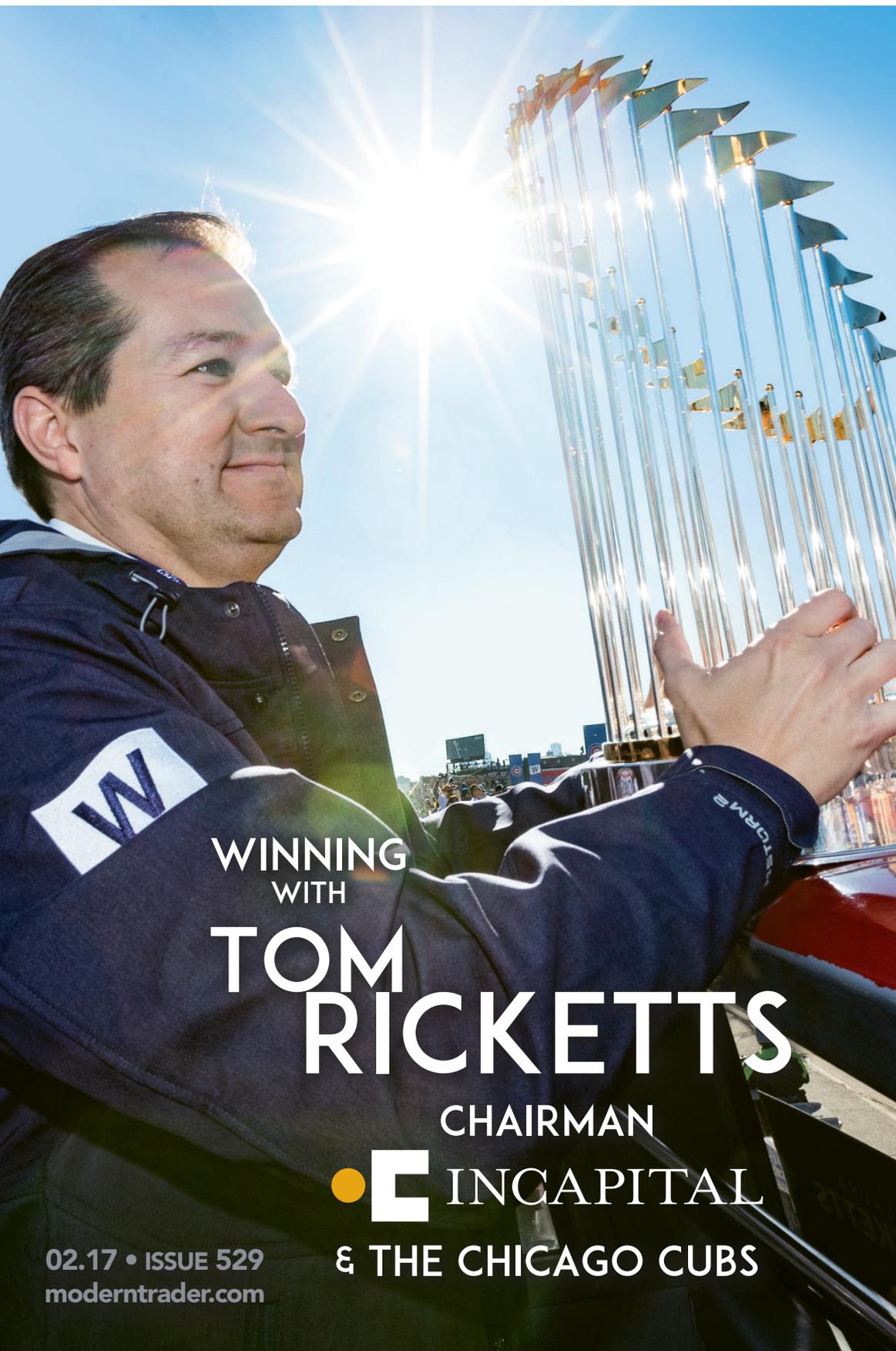


The Annual Awards Issue

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WINNING  
WITH

**TOM  
RICKETTS**

CHAIRMAN

 INCAPITAL

& THE CHICAGO CUBS

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## 10 MARKET MAKERS & SHAKERS

Mike Cagney  
Jen-Hsun Huang  
Ruth Porat  
Gerard Ryle  
Tom Ricketts  
Anthony Scaramucci  
Peter Thiel  
Donald Trump  
Janet Yellen  
and...

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**PATRICK BYRNE**  
CEO OF THE YEAR

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OUR ANNUAL RANKING  
**THE TOP  
30 BROKERS**

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**THE 30 KEY  
MOMENTS  
& MINDS  
THAT MADE  
THE MARKETS**



WINNING  
WITH

# TOM RICKETTS

10 MARKET  
MAKERS  
& SHAKERS

by Daniel P. Collins  
& Garrett Baldwin

With all of the extraordinary events that took place in 2016, the rarest could be the Chicago Cubs winning the World Series: We talk to the underwriter of that victory.

**T**om Ricketts may have seemed destined for the world of high finance and management, but it actually was a series of unplanned moves that allowed him to create innovative securities underwriting firm Incapital and to lead the historic restoration of the Chicago Cubs baseball franchise.

His father, John Joseph Ricketts, started Ameritrade when Tom was eight years old, and while it was the family business, it has not close to the retail brokerage behemoth it would become.

"Growing up it was the family business, it was a nice steadily growing brokerage house," the younger Ricketts says. This was pre-Internet. He refers to it as a nice company, but not necessarily a family legacy.

And his father did not wish any of his children to automatically move into the family business, at least not initially. The senior Ricketts wanted all of his four children to find their own way. "He was like, go do something else;

come back when you're 30-ish," Ricketts says.

He says the only one of the children who worked for Ameritrade was his brother Peter — now the Governor of Nebraska — who would go on to be COO at Ameritrade before moving into politics.

Tom attended the University of Chicago in 1983, and stayed during the summers to work in the burgeoning trading community. "During the summers I was a runner on the [Chicago Board Options Exchange]. I lived in Hyde Park in the summer and would come down to [CBOE]; it was really fun. And obviously that was the mid-1980s, so it was a pretty good era for the CBOE," he says.

It was a good time to move to Chicago in the world of markets and sports. This is shortly after the launch of stock index futures and options and a period of unparalleled (until recently) success for Chicago sports. The Chicago White Sox won the American League West title in 1983 — its first pennant of any kind since 1959; and the Chicago Cubs, which the entire Ricketts family were huge fans of, won the National League East in 1984 — its first title of any kind since 1945. This was followed by the Chicago Bears Super Bowl Championship following the 1985 season.

"A lot of guys were making some pretty good money and it was pretty fun," Ricketts says of his early days on the floor.

### The road to Incapital

It's hard to go back to the farm, or at least Nebraska, when you got a taste of Chicago in the 1980s. Ricketts graduated in 1987, stayed in Chicago and worked on the floor as a clerk for a couple of market makers when the crash hit. "[That] set everything back, but I stayed with it and went on to buy a seat maybe a year later," he says.

Ricketts traded for a group for a while and went on to trade for himself for about three years. "Those were good days, and I enjoyed the lifestyle and made a lot of great friends," he says.





He also went on to graduate school, which helped him understand kind of risk that was involved in trading. “I felt like we were making money, [but] your taking a pretty substantial risk for individual guys, and this is before my family had any substantial wealth. You realize that maybe the risk reward scenario was weighted against you.”

Ricketts either had to raise more capital to trade on his own or to join a firm and become part of a trading com-

pany. “I didn’t really want to do either of those things so I left the business,” he says.

By 1993 he earned his MBA from U of C and decided to get into the bond business. Despite his aversion to risk and the fact the Ameritrade had grown pretty dramatically by this point, he didn’t see himself working for Ameritrade. “I just never really saw myself going to back to work in the family business.” (Ricketts did serve on Ameritrade’s

## INCAPITAL: PINCH HITTING FOR THE SECONDARY MARKET

Incapital provided innovation to the world of fixed income underwriting by using the Internet and by allowing individual investors and advisors to transact directly on Incapital’s platform instead of having to go into the secondary market.

Ricketts launched Incapital shortly after ABN AMRO purchased Chicago Corp. Ricketts and the new owners were not on the same page so he went out on his own with an initial investment from Bank of America.

“We got into the market in 2001 with the first product being these retail directed corporate bonds, and it exploded,” he says. “It was a great time [to launch] the product, there was a big need for it, the markets were good [and] the issuers were great so it grew very rapidly for several years. We added several products that we underwrote and traded: Broker deposits, agencies and other things over time.”

Underwriting has been Incapital’s main activity. Ricketts estimates Incapital has underwritten roughly \$400 billion in new-issue bonds. They also trade: “We trade not only secondary markets with everything we’ve underwritten but also corporate [bonds], agencies, mortgages a wide variety of fixed income markets.”

Incapital also pioneered the use of the Internet in underwriting bonds. “At the time, none of the big firms were using the Internet in any meaningful way,” Ricketts says. “We’ve built some good tools to help advisors and investors to understand the product, and then we built an online order entry system so that the firms that represented the individuals could place orders with us directly, which was a big improvement over the standard voice calls.”

The Internet has become ubiquitous in finance and order-matching technology but at the time it was unique. “We had interfaces where the desk at any brokerage firm could type in their orders directly to us as opposed to having to call us, which was pretty new at the time,” Ricketts says, “We also were some of the people — I almost have to

apologize for this—doing the first e-mail blasts.”

Ricketts points out that a syndicate desk at a regional firm putting out an order for a new [bond] issue was unheard of at that point. “It was a timely value added product. The system raised awareness and streamlined the [underwriting] process,” he says.

It wasn’t his experience trading as much as his understanding of the bond market that allowed Ricketts to spot a need and find an edge to exploit it.

Ricketts explains the process pre-Incapital. “A large borrower is going to issue bonds for whatever purpose; they sell that issue to a handful of institutional buyers, generally the same institutional buyers for most transactions, then over time if an individual or a small institution wants to participate in those securities they buy them in the secondary market,” he says. “For a sophisticated trader [this] may not be a problem but most people looking to buy bonds aren’t looking to squeeze the last basis point, they are just looking for a safe investment; something with stability and income.”

Those folks don’t want to worry about discounts, premiums, or accrued interest, explains Ricketts. “It just made sense for advisors looking to buy individual bonds for individual investors,” he adds. “It was just so much easier, and to this day it is still true that if you have enough resources to do your own diversification, it makes sense to diversify across a handful of different credits and manage your own exposure.”

Incapital has been helping individuals and advisors to manage bond portfolios for 15 years and more recently has diversified away from purely fixed income products. They underwrite CDs and notes that offer returns based on indexes, baskets of indexes and alternative trading strategies, according to Ricketts.

Incapital has evolved over the years to offer more institutional based products to its 800+ counterparties and has been named distributor of the year 10 times by Structured Products magazine.



## “My leadership style is to set the big-picture goals and let people do their jobs”

— Tom Ricketts

residency. “So I moved to Detroit right after I graduated and looked around for a job,” he says.

He started at a small bond company called J W Korth & Company. He learned of a strategy of selling below investment grade bonds to individual investors and was intrigued by it. That didn’t last but he and another trader from J W Korth returned to Chicago for a job with Mesirow Financial and then Chicago Corp. and expanded on that strategy. The idea was to reach out to individual investors “but let’s focus on investing in great companies and see if we can’t grow the industry,” Ricketts says.

He says that after giving approximately 80 presentations to 80 different potential issuers of these bonds, GMAC, one of the largest borrowers in all the markets back then, was interested in giving it a try.

“We started this product, basically new issue bonds for individual investors, sold through retail brokerage distribution points like Merrill Lynch and Charles Schwab and everybody in between,” he says. “It took a couple years to catch on but when it did it got pretty big.”

This was the forerunner to Incapital that launched in 1999 (see “Incapital: Pinch hitting for the secondary market,” right).

### Building a winning team

The experience in building a medium-size firm and entire culture at Incapital would serve Ricketts well in futures ventures. When leading an organization, be it a bond business or a baseball club, he preaches a leadership style that

board of directors for several years.)

By this point he was married and his wife — who he met in the bleachers at Wrigley Field — was a doctor and chose a hospital in Detroit to do her

allows others to flourish.

“My leadership style is to set the big picture goals and let people do their jobs,” he says. “It’s not good to hire someone and then micro manage them. Its demoralizing to have someone always second guessing or looking over your shoulder. But more importantly, you lose the chain of accountability. If you tell someone advising to accomplish a goal and then in the middle of trying to accomplish the goal, you changed the rules on them or make them adjust what they’re trying to do to accomplish their goal. Then, who’s accountable?”

Ricketts says that strategy has been a common element at his organizations.

“Fortunately, at Incapital, we have an incredible CEO who’s doing a great job. And [at the Cubs], we have [Senior Vice President] Theo [Epstein], who is likely to be the best in the game, and President of Business Operations Crane Kenney who is also probably the best in the game at what he does.”

That message carried on across the historic run by the Cubs and their quest to end a 108-year World Series drought. Days after the Cubs beat the Cleveland Indians, Ricketts rode through the city on the team bus for the victory parade. The ride started at Wrigley Field and wended through the city to Grant Park. When asked to describe what he saw from the bus, he nods.

“There aren’t words,” he says. “We loaded the buses on Waveland and we pulled around that corner onto Clark, and I don’t how many tens of thousands of people were just waiting.”

He thought everyone was just at Wrigley Field, but the bus kept going.

“People were lining Lake Shore [Drive], but there was nowhere to stand. Then you get off at Michigan Avenue, hit a cross street, and it’d be a block deep. And then you get down to Grant Park and you get up to speak and you realize, it’s as far as you can see with people.”

All told, the Cubs victory parade would be the largest gathering in human history, that was not be a religious pilgrimage or a funeral (7th overall, although some could call it both).

Ricketts’ journey to the podium to thank fans, the Cubs organization and the multitude of people who helped accomplish the historic feat started long before his family acquired the team.

“I did put on my business school application that my dream would be to own a baseball team,” he says. “But it wasn’t something I was seriously perusing, and it wasn’t like the family was going to buy any sports team that became for sale. It was just simply the Cubs have a special place for us.”



### A family tradition

The special place starts in the stadium's famous bleacher seats. "The bleachers have their own environment. I always say it comes down to two words: General Admission. It creates a different energy. Maybe half the time you go and you sit next to someone that you don't really have anything in common with. But half the time you go you make a new friend."

In Ricketts' case, he would meet his wife in the bleachers; a location that would also become a common gathering place among his siblings. His brother Pete would sleep out before bleachers tickets went on sale. "He'd want to be first in line because we'd buy eight tickets for every Saturday and Sunday game. From May 1 until Sept. 30, we lived in the bleachers."

At business school, he even wrote an article in the school's newspaper as a joke that compared those bleacher tickets to weather options.

Nearly three decades later, in 2007, hedge fund manager Sam Zell had purchased the Chicago Tribune, and roughly \$8.5 billion in debt had been loaded onto the company. This signaled a possible divestiture of the historic franchise.

"I was pretty certain that unless something fundamentally changed in the underlying economics of the core businesses, you would see the team going up for sale, just to generate cash."

At the time, Ricketts says his family wasn't necessarily looking to buy a baseball team. A self-described baseball nut, he had digested everything he could about Sabermetrics and the work of statistician Bill James over the decades.

But from an investment perspective, he held some reservations when the Tribune began looking for bids for the team. "Baseball teams don't regenerate cash on cash returns. They typically aren't things that people sell in five or seven years," he says.

By July 2008, the Tribune received about eight bids and scaled it down to three. That period coincided with the onset of the financial crisis. Lehman Brothers would vanish in September 2008, and an ensuing credit crisis rattled the global markets. After multiple rounds, the Ricketts had won the auction in January 2009. Now the work would begin.

### Building a champion

The purchase of the Chicago Cubs happened shortly after the 2008 World Series. It had been 100 years since the team had won the title. Despite being known as the Lovable Losers, the team had devastating playoff heartbreaks in 1984 and 2003.



In 2011, Ricketts hired general manager Theo Epstein, who had delivered two titles to another city with a long history of disappointment, the Boston Red Sox. Epstein had a knack for quantitative analysis on baseball and worked alongside Bill James in Boston.

While the book *Moneyball* breaks down the success of the Oakland Athletics during the 2002 season thanks to the advanced sabermetrics of Billy Beane, the Cubs success had advanced on beyond the early adage of "getting on base."

## LESSONS FROM THE TRADING FLOOR

Reflecting on the championship, Ricketts explains that baseball has taught him a lot about what he learned as a trader: Humility.

"When you're a market maker for yourself and you lose money, there's no one to blame. There's no boss to complain to. There's no office politics. You just lost money. You learn to accept what the implications are of your decisions," he says.

He also notes that yesterday's analytics aren't going to predict future performance on the trading screen or on the field.

"Secondly, you learn that markets are more efficient than you wish they were. In baseball, you know that's true. You like to think you have some kind of a real proprietary edge. But for the most part, people are always [taking] that edge away from you."

Finally, he notes that managing emotion is an important component to success in both fields.

"The third thing about trading that applies to baseball is you just can't let the highs get too high, the lows get too low. You might have made the right decision, but it doesn't mean that the metrics you use for that are going to be right again. You have to always be questioning yourself even when some things go in the right direction. Our guys know intuitively, they've been around the league long enough and they're smart enough to know that those principles are important to keep in mind when making their decisions."

“It wasn’t like I was bringing in new models or new metrics. [Theo Epstein and his team] knew what they wanted to accomplish”

— Tom Ricketts

Under new management, the Cubs leadership began an aggressive process.

“It wasn’t like I was bringing in new models or new metrics,” he says. “[Theo Epstein and his team] knew what they wanted to accomplish. I just stand back and support them. I don’t want to take any credit for anything like that. It wasn’t like years of trading taught

me [how to run a baseball team].”

The team unloaded most of the bloated payroll and focused on drafting a young core of players.

“We knew from our standpoint that we had an older team. We didn’t have much of a farm system. We have long contracts. We had extensive contracts. And we were losing so it all added up to really the only thing we could do was to think about the future.”

The team would draft MVP Kris Bryant, Kyle Schwarber and Javier Baez.

Management would trade for Anthony Rizzo and Addison Russell and sign ace pitcher Jon Lester from the Boston Red Sox. It even took a chance and traded for a pitcher with a horrible career ERA out of Baltimore named Jake Arrieta and helped him develop into a Cy Young winner.

The goal was simple: get to the playoffs. After three-last place, rebuilding seasons, the team was ready to compete.

By 2015, the team leapt forward under new manager Joe Maddon, but fell short in the league championship series.

In 2016, the team added Jason Heyward from St. Louis and would trade one of its top prospects midseason for closer Aroldis Chapman and win the most games in the regular season. Seven players made the All Star Game.

During the playoffs, they knocked off the San Francisco Giants in four games. They bounced back to top the Los Angeles Dodgers in six games to clinch their team’s first national league pennant since 1945.

Then, after falling behind three games to one in the World Series, the team stormed back to tie it at three games. In a dramatic game seven, the Cubs took a two-run lead into the eighth inning, and with four outs left, Chapman gave up a dramatic game-tying run to Indians outfielder Raj Davis. For many long-time Cub fans this had a familiar feel.

Ricketts praises Chapman for his toughness despite the setback. “Even though he gave up that big homer in the eighth, he came out in the ninth in Cleveland and delivered.”

With the game tied heading into the tenth, rain began to fall. A 17-minute rain delay would turn into a historic moment for the Cubs. Heyward, who had struggled at the plate in his first year, called a player-only meeting to rally the troops, who in turn picked up for Chapman.

“The people that we commit long-term contracts to are the kind of people you want in your clubhouse. Heyward fits that role to a tee. He’s a professional, he has a respect of all the teammates, he’s just everything you’d want in a guy in your clubhouse.”

The Cubs would score two runs that inning to the Indians’ one. The rest is history. ▲



## RUNNING BASES WITH TOM RICKETTS

### Thomas S. Ricketts

#### Business Interests:

Incapital  
The Chicago Cubs

#### Age:

51

#### Residence:

Wilmette, Ill.

#### Title:

Chairman

#### Professional Achievements:

Co-owner & Chairman of 2016 World Series champion Chicago Cubs. Ernst & Young Midwest Finance Entrepreneur of the Year 2010; Institutional Investor's 40 Most Influential in E Finance (several years); University of Chicago Booth School, Distinguished Young Alumnus 2005; numerous civic awards

#### Personal Achievements:

Being happily married and raising five great kids through some crazy, high-profile times.



#### **Where do you see the most opportunity in the markets for the year ahead?**

We will certainly see higher rates and more volatility. It will be a great opportunity for investors sitting in cash to lock in higher yields, particularly with callable bonds. The mortgage markets could be very interesting with the change of leadership in Washington.

**Your favorite sports show?** MLB Tonight on MLB Channel and Intentional Talk is always good for a good laugh.

**What is your favorite Cubs moment from your youth?** First game at Wrigley when I was in high school, no one ever forgets that.

**Excluding the Series, what is your favorite Cub moment since owning the club?** Our first Opening Day was pretty special but clinching the Wild Card last year — my first champagne experience in baseball — is my favorite.

**What are you reading now?** I just finished "River of Doubt" and "Hero of the Empire" both by Candice Millard. Now I am reading "The Churchill Factor" by Boris Johnson and "The Real Madrid Way" by Steven Mandis.

**Your essential book on business?** I generally don't put too much stock in business books but I did buy "Blue Ocean Strategy" for all of the managers at Incapital a few years back.

**What is the first website or app that you check every day?** MLB At Bat app.

**What is the last website or app that you check every day?** MLB At Bat or sometimes MiLB First Pitch if our minor leaguers are playing.

**What is the best investment that you have ever made?** An engagement ring.

**Rate the most important attributes in determining baseball success from: Team attitude, skill, luck and culture?** This is hard because it varies by player and year. That said, the most important part of our success is skill because without good players not much else matters. So I would have 50% skill and equal parts of the other factors.

**Theo Epstein's record speaks for itself, but what**



**personal quality of his contributions most to his achievements?** Theo is a great leader. People in our baseball organization work hard as a team and hold themselves accountable largely because they are inspired to work for Theo.

**You raised ticket prices for next year by 20%. What was the benchmark used to set the new prices?** There is a lot of data to use including primary/secondary market transactions over time and how other teams set prices. So, we literally look at millions of data points when reviewing ticket pricing.

**The MLB just signed a new collective bargaining agreement? Are there any other urgencies that the sport needs to address?** It is good to have a new CBA. Overall, the sport is in very good shape but with the growing number of walks, strikeouts, and pitching changes we may look at some ideas to speed up the game.

**After Wrigley, your favorite ball park?** I like AT&T Park in San Francisco. Great location, good food, and I always have a lot of friends with me there.

**What sport do you watch most after baseball?** Football. I try to catch a little college football and some of the Bears' game every weekend.

**Cubs first baseman Anthony Rizzo gave you the ball from the last out of game 7...what do you plan to do with it?** That ball will be in the Cubs archives and, at some point soon, on display for years to come.

**Favorite musical artists, living and dead?** Pearl Jam, great musicians, and Eddie Vedder is a

huge Cubs fan. Jack White, Bob Mould and Frank Turner would be a few others. With respect to artists who have passed, I think of Bob Marley and Kurt Cobain, both were very influential and died too young.

**What is your favorite Chicago steakhouse?** Too close to call in the city, up near my house we will hit Pete Millers (Evanston) or EJ's Place (Skokie).

**Who is your business hero?** My father. He was the son of a contractor/carpenter from a small town in Nebraska who went on to help lead a revolution in stock trading.

**Who was your favorite Cub player when you were growing up?** Bill Buckner when I was a kid. In fact, I traded for a Bill Buckner card one year and my neighbor friend later changed his mind. Of course, I called no "tradebacks" so I was under no obligation to do anything, so he started ringing our doorbell and prank calling our house to get me to undo the trade. My mom made me trade back, but my friend gave it back to me as a wedding present.

**Your prediction for the Cubs season next year?** Our division is looking very tough in 2017, but it seems like whenever the Cubs are in the World Series, they do it twice. ▲

Jeff Joseph

