STA SPEECH

I would like to thank so many people for helping me to get here. I should start with my wife Michele and our children – they have allowed me to leave home on countless occasions – and I'm grateful.

I would also like to thank Packy Jones and Mike Hornbuckle for coming out to help me kick off what will be a busy year. Packy has been the most consistent advocate for STA over my 20 years at JonesTrading – and I appreciate his energy and focus on issues that face our marketplace and his personal commitment to this organization. Packy leads from the front – and is the most persistent, energized leader a firm could ever hope to have at the top.

Mike Hornbuckle is also here to - and Mike is the essence of what I think a third market broker should be. Mike has led the troops at Jones form the beginning of my career and remains the model of what we aspire to be every day. On a personal level – these are the best men you will have the privilege of meeting.

I would like to thank all those that have gone before me. Each Chairman has devoted years of their professional lives to STA. I personally counted 15 years of volunteer service in my STA life. My path has been the product of pushing, pulling by those around me as well as my determination to address specific issues that really bothered me. How are you going to find your path? It could be a daunting prospect when you look at the number if issues affecting us right now. But I think it makes sense to find **YOUR** issue, learn it and then reach out to your peers. You will blown away at what you will find. AND you will meet some of the most amazing people along the way. I say this because past Chairman Brett Mock from SF has been a powerful force on my journey to learn issues and advocate solutions. I hope I can give back to others following me with the same wisdom and care that was shown to me. I want to acknowledge the immense dedication and experience each past Chairman and Governor has devoted to our industry and STA.

I think it is important to remind everyone sitting here how we got here. In 1934 congress was trying to find ways to prevent the kind of shock to our entire financial system that the country had just experienced – and was still experiencing – from the crash of 1929. As the Securities Acts of 1934 were formalized – input was required from industry participants – and the Chicago Bond Traders Club merged with the LA Traders Assoc to become the National Security Traders Assoc in 1934. The first convention was held in Los Angeles in 1937 with STALA president Hubert O'Neil presiding. You will find that Hubert's brother Richard was STALA President in 1955, His nephew Steve O'Neil was STALA President in 1990 and STA Chairman in 2001, and Steve's son Tim O'Neil was STALA President in 2008 and is sitting right here in the audience tonight. Having Tim here is important because I have worked side by side with Tim for 20 years and he is as important a part of my success as anyone. I am grateful for all of my Jones colleagues – who all work hard and play hard at STA events across the country. Tonight I hope to remind all of you how important these personal bonds are to our business and our future.

I want to begin with two questions question that I want you to think about and will be answered at the end of this short speech.

What do the banking crisis of 2008, the Flash Crash, Pipeline, BATS IPO, MF Global, Facebook IPO and Knights recent issues, and most recently the NYSE penalty imposed last week have in common?

I am NOT singling out any specific firm – but we need to speak freely amongst ourselves as we have done for 79 years.

I am speaking tonight on my own accord and NOT for the STA and not for my firm – these are my thoughts and are meant to make **YOU** think about **YOUR** industry.

And WHY are you sitting here tonight? How did you get here?

I think a current event exemplifies where we are today in the dysfunctional atmosphere we find ourselves operating in every day. Even as the SEC has stated they are looking at market structure issues such as internalization and sub-penny pricing – they approve the NYSE RLP program – which is formulated on both sub-penny pricing and internalization. I don't fault the NYSE – they are a for-profit exchange FORCED to survive because of Reg ATS and Reg NMS. But even as issues are being examined a set of micro-structure rules is released that will be magnified substantially as soon as the other exchanges release THEIR versions of these retail programs. And it is my contention that these forays into microstructure are hurting the execution environment by making it cumbersome, opaque and economically inefficient.

There are a number of issues affecting how we do business everyday:

Internalization
Sub-penny pricing
Exchange approval process
Due process for all market participants on issues that affect us all
Approval process for SRO's
Co-location
Data feeds

And an issue that particularly burns me up – Order Types for different exchanges and who has access to those order types.

Maker/Taker fees
Payment for order flow

Now before you start rolling your eyes at the mention of maker/taker and payment for order flow – I would like to relate a story that happened to me recently that reinforces WHY it is important to stay in front of our regulators and policy makers in Washington, DC. I have been to multiple events where the late night chatter always turns to "What do we really need to help these markets…?" One of the most prevalent answers has been "returning to nickel increments in small cap stocks." Now when I mentioned this to friends at the STA – the eyes would start rolling and I would get a variant of – don't be a caveman Carter – those days are gone.

Well – fast forward to today – look where we are! We have discussed a pilot program using nickel increments for micro/small cap stocks. How did this happen? Someone mentioned this very topic to a policymaker – Congressman David Schweikert from Arizona – and here we are discussing that which could not be mentioned a short time ago. And although we did NOT plant that gem in Congressman Schweikerts ear – it illuminates one of the core strengths of the STA – its ability to converse with not only regulators – but also policymakers that ultimately write the legislation governing our industry.

But a more important fact emerged during the discussion within STA regarding the nickel-increment discussion – and it reinforced the very experience that made me decide this time consuming yet purely volunteer effort that is the STA has such an important function for our industry.

In 2005 as I was finishing my term as President of the Security Traders Assoc of Los Angeles, the NYSE decided it would open the exchange earlier in an attempt to capture European and pre-market volume that was being traded away from their exchange. As the discussion began to gather steam – the executive committee of the STA asked SF and Los Angeles to commission an academic paper that would prove the effort to be harmful to the market. I **ASSUMED that this would become a regional issue that appeared to be the west-coast trading community facing off against the New York centric exchange and bulge bracket community.**

But that is NOT what happened. As I began to reach out to other affiliates – specifically in Boston and Chicago and Dallas – I was surprised to learn they felt the same way as the west coast did. The issues that arose were not a single issue – but multiple problems regarding fair dissemination of information and ultimately individual investor protection. And in reaching out to these affiliates I met some passionate, experienced professionals that took very seriously the ramifications to the overall marketplace. We had near unanimity across the entire country. We also crashed theNYSE mail server with our responses to the exchange in voicing our concern. The issue was put to bed shortly thereafter as the rate of change in the electronic marketplace rendered such a move unnecessary.

AS I mentioned – this year as the Trading Issues committee took up the debate on **Minimum Price Variations (or nickel increments) I once again expected to get rebuffed as being a dinosaur seeking to move the clock back.** And as we discussed the issue amongst a broad group of Very senior industry practitioners representing the same NY centric, bulge bracket brokers – but buy side and third market brokers as well – where did the discussion end? With near unanimity of agreement that such a pilot would be a worthwhile exercise to try and help a fragmented, illiquid marketplace.

Today I find there is a disconnect between the every day practitioners in trading and the heavily lobbied interests of competing business models by exchanges, ECNs. ATS and other unregulated, data dependent players. I think there is a high correlation between our current woes and this disconnect. I will tell everyone that will listen – it is NOT the SPEED of a trade that makes it a good one. I hope that insight will not be lost

So I will tie up this time we have spent together by asking YOU to answer the questions I posed at the beginning of this speech.

WHY are YOU sitting here tonight? I don't think it is coincidence. I hope you might find a single issue that particularly offends your sense of fair play in this current market and regulatory regime. I hope you think YOU could learn that single issue – and reach out to your colleagues across all business models, buy-side and sell-side, vanilla institution or hedge fund or risk-arb desk – and Talk. Will YOU find the unanimity within that issue? I think YOU will find an impressive group of professionals you would otherwise never have had the opportunity to become acquainted with. I hope you are here tonight because you have an interest in a fair and orderly marketplace that protects all investors equally. It would be re-assuring if the public discourse surrounding the issues I've spoken of were vetted amongst the entire industry as they are at the STA. A gentleman named Bob Kirby – the Chairman of the Capital Group in Los Angeles for many years and a professor at Stanford AND USC graduate schools of business – made one of those simple statements that speak from a life time of experience in our industry – "The best antiseptic for the problems we have are the light of day."

And the last question to be answered – what do the recent market events of 2008, flash crash etc. have in common? They are eroding investor confidence in OUR marketplace.

I sat next to a woman at a dinner party recently and when asked what I did for a living – she just shook her head with worry and confusion. Her statement to me was "I am tired of losing money – but I have no idea where to put it. But I don't think you guys have any idea what is going on with your business – so what do I do?"

To me – that was main street speaking, a self-professed financial illiterate wanted no part of our game. That is what investor confidence sounds like right now. I believe the declining volumes are a direct result of that lack of confidence.

Let’s be clear, our markets performed remarkably well under the greatest duress after the dark days of 9/11 as well as the financial meltdown in 2008. Today we face an internal threat that will be best solved by the EXPERIENCE we have all gained as industry practitioners. We trade these markets – we see what is going on – we should be heard-and WE should fix it.

The good news for you tonight is – who cares what I think! The more important issue is what YOU think. I’d like to hear it. There are impressive, experienced people all around you that probably feel the same way – but you have to start speaking out.

We’re here – so start speaking.