Institutional Investor

Burning bright

In the heart of hedge fund country, David (Tiger) Williams has created a powerful equity trading desk for hire designed for managers on the investment prowl.

By Imogen Rose-Smith

At 6:00 on any given Thursday morning during the summer cycling season, David (Tiger) Williams can be found crouched over the handlebars of his carbon fiber Trek racing bike — once owned by professional cyclist David Zabriskie — speeding through Manhattan's Central Park. Williams rides as part of an amateur high-speed cycling team, the self-titled Breakfast Club. Made up of type-A executives from Wall Street and the financial services industry, the group of 15 regulars boasts six former Olympians. They eat up the 6.2 miles around Central Park in less than 13 minutes on their way to completing a 12-plus-mile ride.

"Most cyclists are extremely competitive and focused," says Williams, 44, who has the powerful stocky build common to cycling's top sprinters and a reputation among his fellow cyclists for strength. "The same skill set works well in finance."

With his closely cropped brown hair and athletic frame, Williams could well be mistaken for an older brother of seven-time Tour de France champion Lance Armstrong. The two have struck up something of a friendship through Williams's involvement as an investor in Tailwind Sports, which sponsors the Discovery Channel Pro Cycling Team for which Armstrong rode (see box). The onetime captain of the Yale University hockey team, who was invited to the tryout camp for the 1984 U.S. Olympic team, shares Armstrong's drive and determination to win. In Williams's case, the sport in question is stock trading.

The former head of U.S. equity trading at legendary New York hedge fund Tiger Management, Williams founded Williams Trading, an outsource trading desk for hedge funds and other investors, in 1997. At the firm's headquarters in Stamford, Connecticut, Williams has assembled a team of sharp young traders, the majority of whom are former Ivy League athletes. They offer the promise of superior trading — not just better execution and increased liquidity but also market information, color and insight. In return, clients are willing to pay Williams Trading 2 to 4 cents on every share it trades for them. That's on top of the 1- to 2.5-cent commission they will typically pay to the sell-side broker-dealer or market maker with which Williams trades.

Clients of Williams Trading include Cascade Investment, the Kirkland,

Williams Trading's Williams: "Smaller hedge funds do not always do enough trading to get noticed"

Dennis Kleiman

Washington–based firm that manages Microsoft Corp. founder Bill Gates's $50 billion fortune, and Blue Ridge Capital, a $3.5 billion New York hedge fund run by former Tiger Management president John Griffin. Although Williams won't disclose names, sources close to him say that there are as many as 30 Tiger "cubs" like Griffin among his firm's 100 clients.

"Tiger is a great guy, and one of the reasons for his success is that people really like him," says Tiger Management founder Julian Robertson Jr. "There were a lot of people from Tiger Management going into business for themselves at the same time Tiger did, and that really helped him build a business."


Williams Trading Europe CEO Warrender: "You want us to act as your trading desk with a 360-degree view of the market"

Bob Barkany/Getty Images

Williams's hedge fund reach extends beyond the Tiger cubs. The trader counts among his friends Yale classmate Edward Lampert, CEO of ESL Investments, a $15 billion hedge fund firm in Greenwich, Connecticut, best known these days for its 49 percent stake in retailer Sears Holdings Corp. Williams runs in the same social circles as Steven Cohen, founder of $9.5 billion SAC Capital Advisors, whose headquarters are also in Stamford. And Williams and Louis Bacon, founder of the $10.2 billion New York and London–based Moore Capital Management, are friendly.

Williams clearly enjoys being near the epicenter of the hedge fund industry. "Tiger very much likes to exist in a world where he is on first-name terms with everyone he knows," says fellow cyclist David Wagener, a former Goldman, Sachs & Co. investment banker who now runs his own private equity firm, New York–based Wagener Capital Management, and is one of the other non-Olympians in the Breakfast Club. "That is just who he is."

Williams's network is critical to the success of his firm. It gives Williams and his trading team insight into equity markets that is often unique, especially among the small- to mid-cap U.S. stocks in which they specialize. That's a big reason why multibillion-dollar hedge funds like Blue Ridge continue to use Williams Trading long after they've hired traders of their own.

Twenty of the firm's hedge fund clients have at least $2 billion in assets. But the majority of them are like James Gellert, co-founder of Windcrest Discovery Investments, a $220 million New York–based long-short equity fund. Gellert says that when Windcrest launched three years ago with $10 million in assets, going with Williams was an easy decision. "We knew that out of the gate we would be getting good-quality execution and access to a whole host of brokers that, as a small shop, we would not have had," he explains.

For small hedge fund firms like Windcrest, Williams Trading offers a high-touch service that is becoming increasingly rare among Wall Street brokerages for all but their biggest customers. "The smaller hedge funds do not always do enough trading to get noticed," says Williams. "That creates an opportunity for people like us to fill that gap."

Williams Trading gets noticed. For the past five years, the firm has generated on average more than $50 million a year in commissions for the Street. That's roughly equivalent to the commissions that a $5 billion hedge fund with moderate leverage would generate. But attention from broker-dealers is not the only reason hedge funds turn to Williams. Clients see the firm as a crucial, often secret, ally in the battle for best execution.

Of course, hedge fund managers of all sizes have another option. They can bypass the Street almost entirely and go the low- or no-touch trading route, using electronic communications networks like Instinet and private trading networks like Liquidnet to buy and sell shares. Big Wall Street firms make it easy, offering automated algorithmic trading models, which in their simplest form break up trades into smaller pieces and send them to the electronic exchange or network that offers the best price. Although the rise of electronic networks and algorithmic models has put downward pressure on commission rates for sell-side traders, Williams says it has had little impact on what his firm can charge. "Shrinking commissions have created a binary situation where you either have super-low-cost trading solutions or super-high-end customized trading services," he says.

Williams has benefited from the increased automation of the equity markets since he left Tiger Management a decade ago. By giving traders more choices, electronic trading has made markets more fragmented. At the same time, the move in 2001 to begin quoting U.S. equity prices in decimals, not fractions, has made it less profitable for broker-dealers to commit their own capital making markets. As broker-dealers have reduced the number of securities in which they make markets, especially among mid- and small-cap stocks, getting good execution has become more challenging even with the best electronic trading models. As a result, many hedge funds still find significant value in using a skilled human trader.

Almost all of Williams's clients are long-short equity hedge funds. Their returns come from stock selection and analyses of company fundamentals, and they see trading as a means to execute their investment ideas, not simply as a way to generate profits. Such managers focus much less on trying to reduce commission costs than do their counterparts at quantitative funds. According to TABB Group, a Westborough, Massachusetts–based research firm, fundamentally oriented hedge funds are willing to pay up to 2.5 cents a share in blended commissions, whereas quantitative funds typically pay less then a penny.

At some point, of course, the effects of electronic trading and shrinking sell-side commissions will be felt by Williams Trading and other outsource desks — which number fewer than ten in the U.S. As U.S. markets continue to become more efficient, hedge fund managers are likely to be less willing to pay 2 to 4 cents a share to Williams for a trade that is executed using an ECN at a tiny fraction of that price. Lackluster performance, especially by hedge funds investing in U.S. equities, could also make managers more likely to scrutinize what they're paying Williams Trading for its high-touch service.

Williams isn't resting on his laurels. He has added new state-of-the-art communications and trading technology for clients, as well as provided them with other premium services like access to boutique research shops. At the same time, Williams is expanding his business to less-efficient markets outside the U.S. This winter he hired Hugh Warrender, the former head of trading at London-based hedge fund Bailey Coates Asset Management, to be CEO of Williams Trading Europe.

The Eton-educated Warrender, 38, who favors Savile Row tailoring over the dress down casual look of Williams Trading's Connecticut contingent, is serving double duty as head trader and the firm's European emissary. In March he opened a London office to begin trading European and U.K. securities. The firm trades in Europe for roughly 30 clients. With Warrender's help, Williams is also preparing an assault on the Asian markets and plans to open an office in Mumbai, India in the third quarter of this year.

WILLIAMS ASKS EVERYONE HE MEETS TO CALL HIM Tiger, a nickname he acquired well before he went to work for Robertson. His friends began calling him that in high school because of another Tiger Williams, the one who played left wing with the Toronto Maple Leafs of the National Hockey League. That Tiger Williams was one of the NHL's top enforcers of his era and a favorite among teammates because it was his unofficial job to intimidate opponents, deterring them from dirty play. Williams the trader is similarly known for his loyalty to friends and clients.

"Despite his aggressive moniker, Tiger is actually quite a sensitive, thoughtful guy," says Blue Ridge's Griffin. "I remember when a doctor went beyond the call of duty for someone in his family. Tiger did more than thank him. He gave him a custom-made titanium racing bike."

The significance of that gift is clear after one visit to Williams's office, which is cluttered with cycling paraphernalia. Life-size posters of cyclists share space with more unique mementos. The signed yellow jersey worn by Zabriskie last year while he briefly led the Tour de France, and given to Williams by the cyclist himself, hangs on one wall. The racing bike Armstrong rode in 1998 as he built himself back into shape after treatment for cancer, which Williams bought in a charity auction, rests against another wall.

But although Williams Trading boasts an address in the heart of hedge fund country, it is housed quite literally on the wrong side of the tracks. Its offices at 860 Canal Street in Stamford are located in a three-story concrete-and-glass tribute to functionality, across the railroad tracks from the town's more fashionable streets. Other residents include Vinnie's Dock House Deli and Sound Fitness. "We like to keep a low profile," says Williams. In a business where every penny counts, not obviously overpaying for office space is smart advertising. But the private boat slip, heliport and office gym belie the down-at-the-heels locale.

Dressed casually in tan slacks and a short-sleeved blue-and-yellow checked shirt, Williams is found on a warm Thursday afternoon not in his office but at the trading desk. From his control panel, seated in what the firm's traders call "the big chair," he monitors the markets, instant-messages clients and authorizes transactions. Williams is constantly chatting with clients, friends and key market participants like Griffin or fellow Tiger cub Dwight Anderson, founder of $3.4 billion New York–based Ospraie Management.

Williams's team of 12 U.S. traders performs the power peddling. They are the ones on the phone to the sell side, e-mailing and instant-messaging, getting a feel for the market. Collectively, they might make more than 450 phone calls a day to broker-dealers and traders.

Williams likes to hire traders from the sell side. Raymond Letourneau was a market maker and position trader for five years at J.P. Morgan Securities before he was recruited in 1997

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Cascade Investment CIO Larson: "Tiger is my first phone call every morning"

Dan Lamont/Corbis

to join Williams's founding team. Like Williams, Letourneau played hockey for Yale. The one exception to the sell-side rule is Williams's younger brother Ralph, who played hockey for Trinity College in Hartford, Connecticut; he was a former sector trader at Boston-based mutual fund giant Fidelity Management and Research Co.

"At Williams Trading you have a group of people who are fiercely competitive working for you," says Roberto Mignone, founder of Bridger Management, a $1.5 billion long-short equity New York–based hedge fund. "They have known each other for years and really are a team."

Williams typically arrives at his trading station by 7:30 in the morning. At 9:45 he receives a call from Michael Larson, the chief investment officer of Cascade — the investment subsidiary of BGI, which stands for Bill Gates Investments. "Tiger is my first phone call every morning," says Larson, who phones Williams from his four-year-old Subaru Outback during the 30-minute drive from his house in Seattle to Cascade's office in Kirkland. "I talk to him before I call my own people." Williams gives Larson a breakdown of the market — what's trading where, who is doing what, what rumors are flying and which of those might actually be credible.

"Tiger is the best trader I have ever seen," says Larson, who sends Cascade's traders to Stamford to spend a week or more sitting beside the big chair learning from the master himself. Cascade, which manages the $23 billion-in-assets Bill and Melinda Gates Foundation in addition to Gates's private holdings, employs two full-time traders. Recently, the firm has been methodically diversifying Gates's portfolio, selling 20 million Microsoft shares every quarter. Cascade conducts roughly 20 percent of its equity trades through Williams.

"To the extent that Cascade uses Tiger to trade, or his other large hedge fund clients use him, and the sell side wants a piece of that business, those relationships are a huge help to Tiger," says Ben Bram, head of equity trading for Touradji Capital Management, a New York–based hedge fund specializing in commodities strategies. Bram has known Williams since they were classmates at Yale.

Cascade typically directs complex equity transactions to Williams Trading. Although Gates is not an active trader — Microsoft stock still makes up $22 billion of his net worth — Cascade's equity portfolio includes investments in more lightly traded small- and midcap stocks. In 1999, Williams arranged for Larson to purchase 2 million shares of Pain Therapeutics, a San Francisco–based biopharmaceuticals company that at the time was privately held, at $5 each. The company went public in July 2000 at $12 a share. The stock rose into the mid-20s before collapsing in late 2000. Williams finished exiting the position for Cascade this March when the stock again traded at close to $12.

With large orders in less-liquid securities, as with any orders, Williams's traders work the Street, looking for interest among broker-dealers and market makers. They also have access to the full array of electronic tools and can quietly work a trade through various ECNs and sell-side algorithmic programs. Clients don't have to call up a Williams trader to place an order; instead, they can do it electronically using a trade order management system provided by the firm. Clients can also monitor their orders in real time.

Unlike an algorithmic trading program, Williams Trading has the advantage of the human touch. If something happens in the market — say a large bank is looking to offload a sizable holding of a stock in which a client has a large position — Williams traders would be proactive, calling up the portfolio manager. The firm can also put together more customized transactions, such as private placements, and handle over-the-counter or exchange-traded equity derivatives for clients.

One of the key features of the Williams model is anonymity. Trades are mostly done under the Williams Trading name, so the Street doesn't know which of the firm's clients is responsible for a given order. After Williams executes an order, the securities are cleared and settled through its clearing broker, Goldman Sachs Execution & Clearing (formerly Spear, Leeds & Kellogg). At the end of each day, Williams Trading transmits electronically to Goldman Sachs a list of its clients' prime brokerage accounts associated with each of its trades so the various securities can be directed to the appropriate places.

“One of our biggest values to clients is confidentiality,” says Williams. “That’s why we don’t disclose who we trade for. Hedge funds don’t typically trust the sell side.”

WILLIAMS COMES FROM OLD NEW ENGLAND money. One of three sons in a family of four children, he grew up in the wealthy seaside town of Beverly, Massachusetts, 18 miles north of Boston. His paternal grandfather was an original partner in the Fiduciary Trust Co. in Boston and a paternal great-grandfather was the second chairman of the Boston Federal Reserve Bank. Williams’s father, who ran an office equipment leasing company, is still an active private equity investor at the age of 70.

Like his father and grandfather before him, Williams attended the prestigious Milton Academy in nearby Milton, Massachusetts. He entered Yale in the fall of 1980, majoring in political science and economics. Classmate Bram, an avid sports fan from Boston’s North Shore, remembers the college-age Williams mostly for his mettle on the ice. He says that Williams, who played right wing, was not necessarily the most skilled player, but he was always the one with the most fight and the most heart. Williams, who failed in his bid to make the Olympic team, was a four-year starter at Yale and captain his senior year.

Even in college, Williams was already demonstrating an aptitude for networking. His roommate freshman year was W. Anthony Forstmann, the nephew of Theodore Forstmann, co-founder of private equity firm Forstmann Little & Co. Through Bram, Williams also came to know Lampert and Steven Mnuchin, now chairman and co-CEO of Dune Capital Management, a $2.4 billion hedge fund and real estate investment management firm in New York.

After graduating from Yale in 1984, Williams took a job with Advantage International, a sports marketing firm based in Washington, D.C., in hopes of combining his love of sports and business. In 1986 he was let go after the firm was forced into a round of layoffs as a result of litigation surrounding the death of one of its clients, college basketball star Len Bias, who had overdosed on cocaine.

Williams decided to try his hand on Wall Street. He entered a training program for floor brokers with brokerage house E.F. Hutton & Co. Williams was working on the floor of the New York Stock Exchange during the October 1987 crash. Two months later, Shearson Lehman, then part of American Express Co., bought Hutton and eliminated the training program. Williams, who had begun taking classes toward his MBA at New York University’s Stern School of Business, was laid off again. He completed his MBA in 1989 and got a job as an institutional equity sales trader with First Boston Corp. There he met traders David Saunders and Tim Henny, both of whom would later join Tiger Management and head U.S. equity trading.

By 1993, Williams was working as a senior equity trader for Donaldson, Lufkin & Jenrette in New York. Saunders was about to leave his job at Tiger to co-found K2 Advisors, a fund-of-hedge-funds firm, and Williams, who had become good friends with John Griffin through his old roommate Forstmann, was the obvious replacement. Gil Caffray, then Tiger Management’s global head of trading, didn’t have to ask twice. “The opportunity to work for Julian and with friends like John in a dynamic, performance-driven culture — it was a dream job,” says Williams. “They also paid me very, very well.”

The year Williams joined Tiger Management also saw the formation of the first outsource trading desk catering to hedge funds, Furman Selz Prime Trading Group in New York. A few years earlier, Stephan Vermut, then co-head of Furman Selz’s prime brokerage unit, had been approached by a client about setting up such a desk within the prime brokerage operation. Vermut hired Barry Savitz, who had been running equity trading for the wealthy Bass brothers out of Fort Worth, Texas, and they launched an outsource trading desk with a handful of clients.

“At Williams Trading you have a group of people who are fiercely competitive working for you.”

At Tiger Management, Robertson insisted on a strict separation of duties between traders and analysts. “We have always been an investment firm taking long-term bets in the market rather than short-term positions,” explains Robertson, who closed Tiger to outside money in 2000 but kept the firm’s palatial headquarters on Park Avenue in New York as a base from which to manage his own significant funds. “We have analysts to analyze and traders to execute, not to take positions.”

Caffray and Williams worked well together — Caffray’s reserved temperament complemented Williams’s more in-your-face personality. Williams traded hockey for triathlons and competed in three Ironman competitions. Impressed by the discipline required to compete in a triathlon, Caffray started training too, but the head of global trading didn’t have the time for the commitment required of an Ironman. “Tiger took it to a whole other level,” he says.

When Williams joined Tiger Management, it had $3 billion in assets under management. When he left four years later, the firm had more than $15 billion. During that period the hedge fund industry itself had grown substantially, going from $168 billion and 1,500 funds in 1993 to $368 billion and nearly 3,000 funds in 1997, according to Hedge Fund Research in Chicago.

Tiger Management was a big contributor to the hedge fund industry’s growth. Managing director Lee Ainslie III left in 1993 to join Dallas-based Maverick Capital. Lawrence Bowman, who had been a top technology analyst at Tiger, opened Bowman Capital in San Mateo, California, the following year. Former Tiger president Griffin launched Blue Ridge in early 1996. The next year retailing and consumer analyst Stephen

Mandel Jr. left to start Greenwich-based Lone Pine Capital.

It was Griffin who came up with the idea to launch Williams Trading. When he started Blue Ridge, Griffin couldn't afford a professional trader. He visited Savitz and realized that the same kind of setup could work with Williams. "I trusted Tiger, so I broached the idea [of outsource trading], and he ran with it," says Griffin. Williams set up shop in June 1997, renting space in Blue Ridge's Manhattan office, with six clients and three employees, including Letourneau.

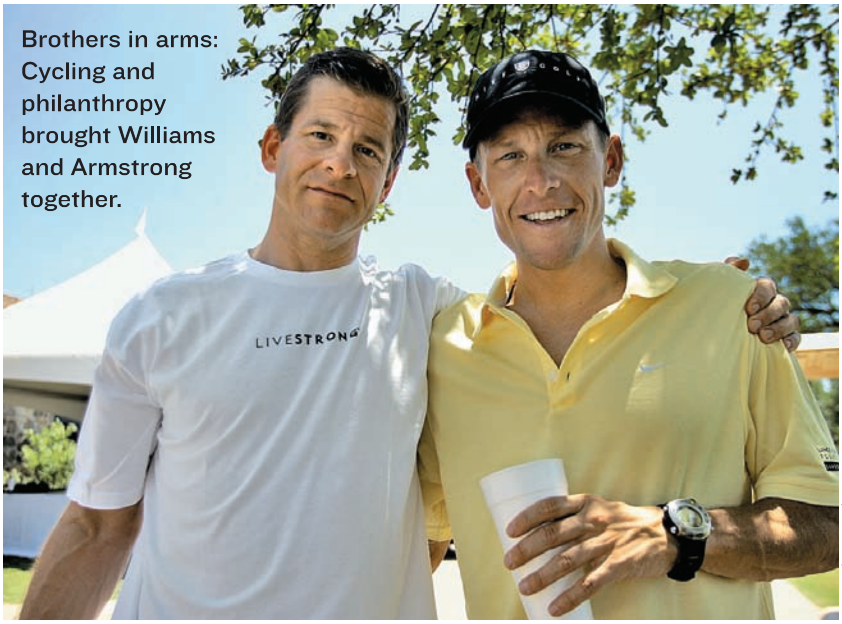
"What Tiger was able to do was step into the breach," says Caffray, now a founding partner at Greenwich-based hedge fund firm FrontPoint Partners. "He had a group of clients who were very good at making money and running a portfolio but had no trading experience. Tiger could provide that experience."

Williams met Cascade's Larson through Griffin. In late 1997, Cascade turned to Williams Trading when the manager needed to execute a large, complex transaction. With Letourneau working the order, word of the trade never leaked, and Larson began sending more of Cascade's business to Williams Trading. Larson and Williams also get along socially; they share an interest in cycling and attend cycling events together.

"I think if you knew Tiger ten years ago, he didn't realize how smart he was," says Larson. "He just thought of himself as this hockey player who had gone to Yale. He is extremely intelligent, very bright and analytical. But I think one of the reasons he works so hard is because he didn't necessarily always see himself that way."

During its first four years of business, Williams Trading doubled its customer base every year, reaching about 50 clients by

The Armstrong Connection



Brothers in arms: Cycling and philanthropy brought Williams and Armstrong together.

Kreutzphotography.com

For David (Tiger) Williams, cycling brings together all his passions — competition, athletics, charity, friendship and fun. But perhaps most prized of all is the bond he has forged with seven-time Tour de France winner Lance Armstrong.

Aware of Williams's interest in cycling, Thomas Weisel, chairman and CEO of San Francisco–based investment bank and broker-dealer Thomas Weisel Partners, approached the founder of outsource trading firm Williams Trading in 2002. Weisel asked him to be a private equity partner in Tailwind Sports, the sports marketing company set up by Weisel that owns and comanages the Discovery Channel Pro Cycling Team (known as the United States Postal Service Pro Cycling Team until it changed sponsors in 2005). Williams was keen to get involved.

Through Tailwind and his membership in the Champions Club, an elite group of cycling enthusiasts with finance connections, Williams has become one of a handful of high-powered executives who share a commitment to bicycle racing in the U.S. Their involvement extends from funding important initiatives on the U.S. cycling circuit, such as youth team development, to encouraging the sport among amateurs. It was at a riding camp — set up to give these wealthy cycling hobbyists an opportunity to race with the sport's best — that Williams came to know the cycling legend.

Armstrong, who until his retirement last year was the lead cyclist on the Discovery team, is known for remaining aloof from his fans. But for Williams, Armstrong — now an investor in Tailwind himself — makes an exception. "He is passionate about the sport and rarely misses an opportunity to come down to the Ride for the Roses [a charity event to support the Lance Armstrong Foundation] or the Discovery Channel camps," says Armstrong. "Having been on a few rides with him, I can tell you he is strong on the bike."

Armstrong and Williams have much in common. Both are highly competitive and at the top of their respective field. They also share a commitment to support cancer-related causes. Williams lost two close family members to cancer — his mother and an uncle — and has donated millions of dollars to cancer charities.

The Armstrong Foundation, created by cancer survivor Armstrong in 1997, is among the organizations to benefit from Williams's generosity. When the foundation held its first gala in New York last year, Williams put his enthusiastic support — and wealthy connections — behind the project.

The event, held October 19 in the grand ballroom of Manhattan's Waldorf-Astoria hotel, could easily have been mistaken for a conference of the Connecticut Hedge Fund Association. Sponsors included Tudor Investment Corp., Och-Ziff Capital Management Group and the Steven and Alexandra Cohen Foundation. Williams's former Tiger Management colleagues Dwight Anderson and John Griffin were among the attendees, as was Moore Capital Management founder Louis Bacon. The event raised $4.7 million, with the live auction collecting more than $1 million in just a matter of minutes.

"With Tiger's support, the New York gala was our most successful event to date," says Armstrong. "I was truly blown away." **— I.R-S.**

the end of 2000. In its lifetime, the firm has had about 150 clients. Thirty went out of business, ten left voluntarily and an additional other ten were terminated because the revenue they generated didn't justify the time and effort that went into supporting their trading.

Since Williams launched his firm, the business has generated about $600 million in gross revenue, including an estimated $70 million to $100 million in 2005. His most serious competitor in the U.S. is Savitz, whose Greenwich Prime Trading Group is also based in Stamford. Greenwich Prime, which Savitz formed through a management buyout in 2001 after Furman Selz's sale to Dutch bank ABN Amro, has 40-plus full-time clients, typically smaller hedge funds with $1 billion or less in assets.

The rise of outsource trading desks coincides with a change in the very landscape of equity trading. Gone are the old training programs like the one Williams participated in at Hutton. Decimalization, the rise of ECNs and other electronic trading platforms, technological innovations, competition among broker-dealers and pressure from the buy side to cut commissions all have combined to compress profits from equity sales trading while increasing volume. The resulting layoffs and cost cuts have caused a talent drain. "Many sell-side traders today are young and inexperienced," says Savitz, who began his career trading on the floor of the New York Stock Exchange in 1965. "They are clerks."

"Many sell-side traders today are young and inexperienced. They are clerks."

As Wall Street has been forced toward a high-volume, low-head-count model, firms have been moving resources away from client-based equity trading toward proprietary trading businesses, where they can make more money. Justified or not, many hedge funds are increasingly concerned that investment banks' proprietary traders are seeking to profit at their clients' expense. "A lot of the big trading firms no longer have clients, they have counterparties," says Mignone, who left Blue Ridge to launch Bridger in 2000.

For his part, Williams does use his firm's capital to take proprietary positions in the equity markets. He makes it clear, however, that investing is not a primary source of revenue for Williams Trading. As a registered broker-dealer, the firm is required by the National Association of Securities Dealers to have a minimum amount of capital available in case of any funding issues, and Williams says his clients prefer that he put "some skin in the game" by investing that cash. As of early May the firm had just three positions with a total invested capital of less than $3 million.

TWO YEARS AGO, WILLIAMS ATTENDED AN ALUMNI event at the Yale Club in New York at which Yale chief investment officer David Swensen spoke. Swensen manages the university's $15.2 billion endowment. During his 21 years on the job, he has delivered an average return of more than 16 percent a year — which is anything but average. During the question-and-answer period following the talk, Williams half-jokingly asked Swensen, who at the time had an annual salary of about $1 million: "If you were running a hedge fund with your asset base and you had generated the kinds of returns you have, you'd be worth around $800 million. How does that make you feel?"

The same question could be asked of Williams. Although the estimated $20 million to $30 million he made last year is more than most Wall Street traders took home, it's a fraction of what top-paid hedge fund managers earned. Tiger cubs Mandel and Griffin made $275 million and $175 million, respectively, according to Alpha estimates. James Simons of Renaissance Technologies Corp., an $8.7 billion hedge fund firm in East Setauket, New York, made $1.5 billion.

Despite the obvious appeal of hedge fund economics, Williams says that he never seriously considered setting up his own fund. "I am a trader, not a portfolio manager or an analyst," notes Williams, who believes in the strict separation of responsibilities between analysts and traders that he learned at Tiger. "My skills and talents are better suited to providing trading and execution solutions, not managing risk capital."

Williams arguably has the best of both worlds. His firm's estimated $70 million to $100 million in revenue last year is roughly equivalent to what a $1.5 billion hedge fund, charging a 2 percent management fee and 20 percent performance fee, would generate if it were up 15 to 20 percent — but with a lot less risk. At the same time, Williams enjoys all the amenities of the hedge fund life: a five-acre home on a private island off the Connecticut coast, a summerhouse in Montauk on the tip of Long Island and part ownership of a Eurocopter TwinStar, which he uses to fly back and forth from his Montauk house on weekends.

That lifestyle, however, could come under some pressure as shrinking commissions in the U.S. and the shift to no- or low-touch trading solutions eventually eat into Williams's business. As a result, he is aggressively expanding his activities to Europe and Asia, where markets are less developed and a high-touch, hands-on trading firm like his can add a lot of value.

Since Williams Trading opened its London office early this year, the firm has established relationships with numerous broker-dealers across Europe, from large bulge-bracket outfits like Deutsche Bank and UBS to regional niche players like Spain's Banco Español de Crédito and Intermonte Securities SIM in Italy. "The reason for picking up a telephone to us is very different from picking up a telephone to a broker," says Warrender, who was a Williams client as head of trading at the now-defunct Bailey Coates before being recruited to head up Williams Trading Europe. "You want us to act as your trading desk with a 360-degree view of the market."

Team Williams has a fearsome foe for the yellow jersey of European trading in the form of London-based CF Global Trading, an outsource trading outfit founded in 2000 by Scott

Chace, formerly head of Asian equity trading with Tiger Management. Chace and Williams were contemporaries at Tiger, and until recently their firms had a close relationship. Williams directed U.S. clients wishing to trade European or Asian securities to CF Global, and CF Global would return the favor by directing clients to Williams for their U.S. trading. Last year, however, Chace opened an office in Los Angeles, and this February his firm began trading North and Latin American equities out of a new Norwalk, Connecticut, office; the two firms are now determined rivals. Williams Trading Europe recently scored points in the race by hiring Raymond McCabe, who had been CF Global's head of trading in London.

Several Williams clients, including Bridger and Cascade, have signed on to use its European trading operation. As Bridger's Mignone explains, his fund, which is increasingly finding trading ideas in Europe and Asia, relies on Williams because it doesn't have the contacts on the ground to otherwise get best execution when implementing those ideas. In the past, Bridger used CF Global.

Chace dismisses the threat posed by Williams Trading. "We deal with some of the most sophisticated hedge funds globally and regionally," he says. "I think there is plenty of room in this space." His firm is seeing a lot of client interest in Canadian and Latin American equities.

The competition in Europe between CF Global and Williams is spilling over into Asia, which in the long term likely offers the greatest growth potential for outsource trading firms. CF Global has a Hong Kong office, and much of Chace's own expertise lies in the more thinly traded Asian securities.

Williams Trading's Warrender is no stranger to Asia. During the 1990s he spent four years working as a trader there, first for Cazenove Group out of Hong Kong and then for Jardine-Fleming Securities in the Indonesian capital of Jakarta. Williams is currently in discussions with a wealthy family in India to establish a joint venture based in Mumbai, which would serve as his firm's base of operations for its Pacific Rim trading.

By expanding into Europe and Asia, Williams is moving out of his own comfort zone into uncharted territory, where he will have to rely on others to fly the Williams Trading colors. Williams certainly has the ambition to pull ahead of the pack. "Tiger wants to win at everything he does," says fellow Breakfast Club cyclist Wagener.

Cascade's Larson sees similarities between Williams's development as a businessman and as an athlete. "Tiger went from being a candidate for the Olympic hockey team to competing in Ironman competitions, and then retooled his body again to compete as a cyclist," says Larson. "He is just an incredible guy with a lot of drive." ii