



CHARLES LYKES
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FOUR-DAY Trader

A local entrepreneur says his software spots trends in 43 financial markets up to four days out, with at least 70% accuracy. And he's got the sales to prove it.

BY FRANCIS X. GILPIN
Associate Editor

It took 25 years. But Louis B. Mendelsohn has turned his passion for a risky hobby into a business that, from all outward appearances, looks as if it will be quite profitable for the foreseeable future.

While assistant executive director of a Tampa hospital, Mendelsohn met a pathologist who urged him to move beyond stock investing and start trading commodities contracts. "I really fell in love with it," says Mendelsohn. "I just couldn't get it out of my mind because it was just so intellectually challenging. You're pitting yourself against other people on a minute-by-minute, day-by-day basis around the world."

In 1979, Mendelsohn grew tired of using graph paper, hand-held calculators and rulers to plot the course of contracts he'd bought on the Chicago Mercantile Exchange or the New York Board of Trade. His mind drifted back two years to when an electronics store clerk had shown him an early PC.

"It just struck me that I could marry my interest in technical analysis and quantitative ways of looking at the markets and analyzing the markets, and use this technology of the personal computer to harness what I was trying to do by hand," says Mendelsohn.

Mendelsohn quit Women's Hospital, then leased by Humana Inc., and founded a software company that wouldn't deliver a commercial product for almost four years.

His brainchild, known today as Market Technologies LLC, was recently named to Inc. magazine's list of the 500 fastest-growing independent, privately owned companies in America.

The Wesley Chapel company placed No. 420 on the Inc. 500, with 2003 revenue of \$6.4 million. The magazine requires Inc. 500 companies to submit audited

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Mark Wemple

Louis B. Mendelsohn left a comfortable job as a hospital administrator two decades ago to start a software company. Market Technologies LLC has since become one of the fastest-growing private companies in the nation, according to Inc. magazine.

COVER STORY

Mendelsohn

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financial statements or corporate tax returns to be considered for the list. Revenue at Market Technologies has grown at an average yearly clip of almost 90% since 2000, according to the magazine.

Mendelsohn expects 2004 revenue to top \$8 million.

With just 20 employees and little overhead, Mendelsohn reports an increasing volume of calls from venture capitalists since the Inc. 500 edition hit mailboxes and newsstands.

The Market Technologies president and chief executive has a clue why. "You can look at the Inc. 500 companies and see companies in there with half of our revenue and five times as many employees as we have," says Mendelsohn. "Clearly, they're not making money."

Good at math

Mendelsohn, 56, studied a little computer programming at Carnegie-Mellon University. But that was in the 1960s. "It was all with mainframes," he says. "You never even got to see the computers."

A native of Providence, R.I., Mendelsohn majored in management science at the Pittsburgh university. "I was 17 years old, had no idea what I was doing," he recalls. "Carnegie was a good school. I was always very strong in math, quantitative kinds of thinking."

After graduation, Mendelsohn took a job in Boston as an assistant to Frank Ervin, a Harvard Medical School psychiatrist who headed a research program at Massachusetts General Hospital. Ervin recommended Mendelsohn go into health care administration.

During the 1970s, Mendelsohn obtained master's degrees in social welfare administration from the University of Buffalo and business administration from Boston University.

With the graduate degrees, Humana hired him and Mendelsohn moved to warmer climes. He worked in South Florida before coming to Women's Hospital in Tampa.

Mendelsohn had been fascinated with speculation in financial markets since he was 12, when he started dealing in rare coins. "But it was always on the side," he says. "It was always on the weekends and at night."

His 1977 visit to a Radio Shack store and subsequent immersion into commodities trading got Mendelsohn reassessing his career. "I don't really think I would have been happy as a hospital administrator," says

Mendelsohn, who was 32 at the time. "It wasn't real. It wasn't what was inside."

Running his own medical center in 20 years didn't excite the Women's Hospital assistant director. "The way to avoid a midlife crisis is to not find yourself doing the wrong thing in your midlife," says the pony-tailed Mendelsohn. "If you hate going to work on a Monday morning when you're 55 years old, you've got a problem."

Mendelsohn quit Humana and, with his wife's encouragement and financial support, tried conveying to a computer programmer what he wanted his market-tracking software to do.

For three years, Mendelsohn says he worked night and day on little else. "Seasons changed. I didn't even know they had changed," he says. "I couldn't even imagine doing that again, something on that order, at this point in my life. It's unimaginable."

Yet he and his wife Illyce, who operated a tutoring service, never gave up. "We just bootstrapped, from month to month," says Mendelsohn. "There were times when it was very difficult. I remember having to cash in my IRA account one year."

Finally

His first product, ProfitTaker, was introduced in 1983. Mendelsohn says ProfitTaker was the first commercial software to let traders perform strategy back-testing on a computer.

Strategy back-testing takes historical market data and runs it through pre-set formulas that signal when to buy and sell futures contracts. ProfitTaker also computed the profits and losses on trades.

ProfitTaker was ahead of the curve at a time when most PCs and Macs had only 48-kilobyte hard drives. "There was no competition that had a historic-testing capability," Mendelsohn says, "not at all." Rival software merely automated a trader's tapping on a calculator.

How to get out the word?

"Yes, I had created this incredible mousetrap," says Mendelsohn. "But I also needed to learn how to sell the mousetrap. How do you market and promote the mousetrap?"

While writing his user manuals, Mendelsohn studied how other products came to public notice.

"I subscribed to all the various magazines," he says, chuckling at the memory. "You had to use fictitious names to get information from competitors. It had an industrial espionage quality to it. My cats were on mailing lists. My dogs were on mailing lists."

Mendelsohn hired a writing coach and submitted his ruminations to Futures magazine, a bible for commodities traders in the

1980s. "Of course, I'm unknown," he says. "Out of the clear-blue sky, out of Tampa, Fla., some nobody just starts sending articles to the editor of Futures magazine."

The magazine's editor-in-chief at the time, Darrell R. Jobman, was impressed with Mendelsohn and published several pieces. Mendelsohn has since written a book touting a more recent innovation.

A primitive version of the newer product came out in 1986. "I wasn't happy with it," says Mendelsohn. "It didn't have enough quantitative rigor to it."

Five years later, Mendelsohn introduced a more refined version using artificial intelligence. The new and improved product, VantagePoint, allows traders to follow more than one market at a time.

VantagePoint derives its power from something called neural networks, which use algorithms to recognize patterns in large data sets that are undetectable by the human eye.

Following enhancements to the original 1991 version, the current VantagePoint contains historical data for 43 financial markets or indices. With that, VantagePoint aids traders who wish to understand how up to 10 of those markets or indices will interact with each other.

So traders dealing in, say, U.S. Treasury bonds have historic price data at their fingertips for those instruments, plus the same information for as many as nine other related indicators, such as currency-exchange and interest rates.

Brainpower on CD

VantagePoint costs \$3,000 to \$10,000 a copy, depending on how many markets or indices a customer wants to track.

"This is intellectual property. We are offering brainpower on a CD," says Mendelsohn. "It represents 25 years of involvement and experience in the industry."

Mendelsohn says there hasn't been a comparable product on the market in more than a decade and he doesn't envision one on the horizon.

"We find these hidden patterns and relationships," he says. "That allows us to bring technical analysis to a new level because not only are we doing inter-market analysis. But

we're able to actually use these neural networks to make forecasts of what that target market is going to be doing, expected to do over the next couple of days."

With at least 70% accuracy, Mendelsohn says VantagePoint can predict market changes up to 96 hours in advance. That may not impress a long-term stock investor but four days is a lifetime for a commodities trader.

'With the Baby Boomer generation coming into maturity now, heading toward retirement, the demographics are in our favor, in terms of the demand for the kind of products that we have to offer.'

Louis B. Mendelsohn

"We're not just looking backwards and thinking that the past will just continue into the future. We're actually forecasting," says Mendelsohn. "We may be forecasting a turning point. We may be forecasting that the market is going to make a top tomorrow, a bottom, change trend direction."

Trying to make even educated guesses beyond four days is imprudent, according to Mendelsohn. "The further out you go, the less reliable the forecast," he says. "How could you possibly forecast crude oil, as to what it's going to do six months from now? It's impossible."

Those who buy VantagePoint are mainly individual traders and they operate in more than 50 countries. Mendelsohn makes no attempt to sell to brokerage firms, hedge funds or other institutional traders. Those entities usually want Market Technologies to customize VantagePoint to their needs.

VantagePoint is off-the-shelf software that delivers steady profits for Market Technologies. Why tinker with it for each customer and risk messing up the whole business model?

"We haven't even, to any degree, exploited or maximized that niche," says Mendelsohn, who has seen his three young sons, ages 16 to 24, join the business.

The day traders of the Internet-stock bubble have given way to savvy speculators who are trying to gain a technical edge as they attempt to recoup some of their losses from the 1990s.

"With the Baby Boomer generation coming into maturity now, heading toward retirement, the demographics are in our favor, in terms of the demand for the kind of products that we have to offer," says Mendelsohn. "Let's face it. The financial markets are a major part of what people need to be involved in, in order to help bolster their net worths."