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E-Trade

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Introduction

E-Trade: The Story of An American Company explores not just the chronology of an iconic business, but the dramatic transformation of the financial landscape itself. For decades, Wall Street's corridors of opportunity were open only to a privileged few: brokers, institutions, and wealthy individuals with access, information, and influence. The advent of E-Trade marked a seismic shift. Combining ingenuity, technological prowess, and an unyielding belief in democratizing finance, E-Trade unlocked doors once thought permanently closed, empowering ordinary Americans to play an active role in shaping their own financial destinies.

The roots of E-Trade stretch back to an era of mainframes and dial-up connections, when the idea of placing a trade from one's living room seemed fantastical. What began as TradePlus—a modest venture by William Porter and Bernard Newcomb in Palo Alto—grew into a catalyst for the digital revolution in personal investing. Their initial mission was simple but radical: make real-time market information and trading accessible to all, not just the well-connected. By leveraging early computer networks and later the fledgling internet, E-Trade championed a new era of transparency and accessibility.

E-Trade's rise mirrored the dramatic cultural and technological shifts of late-20th-century America. Riding the waves of economic booms, enduring the crashes, surviving scandals, and continually adapting to regulatory hurdles, E-Trade shaped—and was shaped by—the spirit of its times. It epitomized the optimism of the dot-com boom, bore the scars of the inevitable bust, and, through it all, retained its commitment to empowering individual investors. The company's innovations—from mobile trading to seamless integration of banking and investment products—pushed the industry forward, forcing even established giants to adapt or fall behind.

But E-Trade's story is not just one of innovation and growth. It is also a tale of fierce competition, contested leadership, controversies, and hard-earned resilience. As competitors emerged with rival platforms, E-Trade continued to refine its offerings, navigating the zero-commission revolution and managing crises that threatened its very survival. The company's bold marketing campaigns, like the memorable “Talking Baby,” reflect both a playful brand spirit and a deep understanding of the evolving American investor.

The twenty-five chapters that follow trace E-Trade's compelling arc from its origins in a small California startup to its present role as a major subsidiary of Morgan Stanley within the S&P 500. Along the way, we examine the key milestones, missteps, and moments of reinvention that shaped not only E-Trade but the entire online brokerage

ecosystem. With insight into technology, strategy, leadership, and culture, this book offers an in-depth look at how one company changed the rules of finance and continues to influence the industry's future.

Today, as millions log on to monitor investments, execute trades, or learn about financial markets in real-time, few consider the decades of vision, risk, and innovation that made such access possible. E-Trade's journey is a testament to the power of persistence, disruption, and adaptation. Its story is, in many ways, the story of modern American finance itself—a reminder that technology and tenacity can forever alter the balance of economic power.

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CHAPTER ONE: The Birth of Online Trading: TradePlus and the Early 1980s

The year is 1982. Ronald Reagan occupies the White House, Michael Jackson's *Thriller* is about to redefine pop music, and the personal computer is slowly but surely making its way into American homes and businesses. In the heart of Silicon Valley, specifically Palo Alto, California, two individuals—physicist William A. Porter and Bernard A. Newcomb—were quietly planting the seeds of what would become a revolution in finance. With a modest initial capital of \$15,000, they founded a company called TradePlus.

Their vision was deceptively simple, yet profoundly ambitious for its time: to create a software program that could deliver real-time market information and facilitate trades during market hours. This was an era dominated by phone calls to brokers, ticker tape machines, and the clamor of trading floors. The idea of executing a stock trade from a computer terminal was, for many, the stuff of science fiction. But Porter and Newcomb saw a future where technology could democratize access to financial markets, bypassing the traditional gatekeepers and their often-hefty fees.

The early days of TradePlus were marked by pioneering efforts in a nascent technological landscape. In 1983, the company achieved a significant milestone: its first online trade, executed over a CompuServe network. CompuServe, a major online service provider of the era, acted as the digital highway for this groundbreaking transaction, showcasing the tangible potential of electronic trading. This event, while seemingly small in scale, was a harbinger of the profound shifts that would reshape the investment world.

Initially, TradePlus operated as a service bureau, a behind-the-scenes technological partner for established financial service companies. Rather than directly serving individual investors, TradePlus contracted with firms like Fidelity, Charles Schwab, and Quick & Reilly. Their role was to provide these companies with the online quote and trading services that their own employees could then utilize. It was a business-to-business model, with institutional clients paying subscription and service fees to access and leverage the innovative TradePlus software.

The focus in these formative years was on building a robust, reliable system that could handle the complexities of financial data and transaction processing. By 1984, TradePlus had grown to serve approximately 500 customers, generating a notable 12% of the firm's commissions. This early success, even within a limited scope, demonstrated the underlying demand for electronic financial services and validated

Porter and Newcomb's foundational premise.

Throughout the mid-1980s, TradePlus continued to expand its client base, steadily adding more institutional customers who recognized the efficiency and potential cost savings offered by electronic systems. The financial world, while still largely traditional, was slowly beginning to feel the tremors of technological change. The firm's technology was steadily gaining traction. By the summer of 1987, TradePlus reported that its servers were in use almost constantly, often by multiple users concurrently, twenty-four hours a day. This included a significant number of international customers, alongside its domestic clientele.

However, the path of innovation is rarely smooth. The booming economy of the mid-1980s was building to a dramatic crescendo. On October 19, 1987, the global financial markets experienced one of the most severe and unexpected crashes in history, a day that would forever be known as "Black Monday." The Dow Jones Industrial Average plummeted an astonishing 508 points, a staggering 22.6% drop in a single trading session – the largest one-day percentage decline in the index's history. Worldwide losses were estimated at \$1.71 trillion.

Black Monday sent shockwaves through the financial industry, sparking fears of a prolonged economic downturn reminiscent of the Great Depression. Trade volume contracted sharply, and many online trading services, including TradePlus, felt the sting of the market's sudden contraction. While the crash wiped out a substantial number of clients for many firms, including TradePlus, William Porter remained undeterred. The downturn, though significant, did not derail his long-term vision. In fact, the resilience shown in navigating such chaos would become a recurring theme in the E-Trade story.

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