The WISTLR Chronicle

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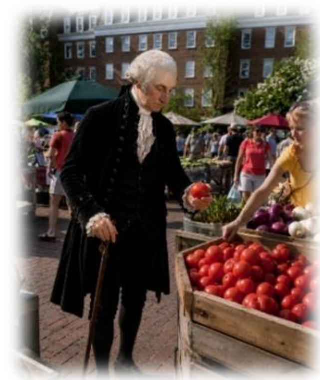
Networks for exchange: *The best businesses in history?*

Imagine it's the year 1770, and you are standing at a dock on the banks of the Potomac River at George Washington's Mt. Vernon. Workers (likely slaves) are loading wheat, corn, fish, fruits, and an assortment of other agricultural products onto ships to sell just down the river at the Alexandria Farmers Market. Fast-forward to any Saturday in the year 2026, and you can attend the same Alexandria Farmers Market in Old Town in the same location. The Alexandria Farmers Market has operated continuously since 1753 on the block bounded by King, Fairfax, Cameron, and Royal Streets. The block is beautiful for sure, but nothing particularly special relative to a lot of other beautiful city blocks across Northern Virginia. It's a **network for exchange** though, a space (in this case physical) that hosts buyers and sellers of goods, and it continues in its long-term home because, well, why change? The benefits of staying put dwarf the friction required to change locations, and as a result, we continue to shop in the same location George Washington did 250+ years ago. Essentially, it persists because it has persisted. Vendors who sell goods have changed names, local politicians who govern the city blocks have changed too, but the market carries on. How long will the Alexandria Farmers Market last? Here, the Lindy Effect is a useful model to think about that; the Lindy Effect says that the longer something has been around, the longer it is likely to continue to be around, so the Alexandria Farmers Market probably has some time to go until patrons no longer purchase overpriced fruits and vegetables from it.



What does the Alexandria Farmers Market have to do with investing? Well, it's not alone in its longevity as a **network for exchange**. Some of the best businesses in the world operate like massive Alexandria Farmers Markets, namely, equity exchanges, options exchanges, derivatives exchanges, card networks, and bond exchanges; **and these businesses, like the Farmers Market, tend to last a very long time**. We don't see, touch, or interact with networks in the same manner we do with other profitable industries, so they don't often get as much attention, but my goodness they are amazing businesses. I might posit that they are some of the very best, and here's why: in most domains (bonds, stocks, cards, options, etc.) you only need one or two dedicated exchanges, so they tend to become monopolies or oligopolies; moreover, because they are monopolies/oligopolies, they earn incredible returns on capital and operate with margin profiles that defy normal business standards (oftentimes 40%+ operating margins); finally, they *naturally* grow with global commerce and inflation; they don't require sales teams, marketing teams, or political lobbyists to have work come their way – more economic activity begets more revenue at effectively no incremental cost.

As for our involvement in the sector, we recently purchased two of these networks for our own account – MarketAxess and Tradeweb (ticker symbols: MKTX & TW). These two businesses collectively dominate the fixed-income market and hold a high percentage of US and international digital fixed-income trading volumes. MKTX and TW benefit from significant tailwinds, namely: fixed-income's steady march from analog voice trading to digital transactions, government and commercial bond issuances (inflation), and the globalization of fixed-income markets. The businesses operate with no debt, have good management teams, are likely to step into continued secular growth, and already hold oligopolistic-like positions (why move the Alexandria Farmers Market when the corners of King, Fairfax, Royal, Cameron Streets work so well?). Any current risks perceived by the market seem overstated, and price drawdowns have given us the opportunity to buy these companies at a combined pre-tax earnings yield of ~8%. It's not inconceivable that both businesses survive for a very long time (we'd set the over-under at another 100 years) and grow substantially from their current sizes. If the Alexandria Farmers Market is any indication of what's to come, these businesses may just be getting started.

Logo	Name	Year Founded	% of Core Market (1)	Company | Market Overview
NYSE	New York Stock Exchange *(Part of ICE)*	1792	~50%	Primarily lists and facilitates trading in shares of large, established public companies, along with ETFs and other securities.
Nasdaq	NASDAQ	1971	~50%	Primarily lists and trades equities, with a particularly strong concentration in technology and growth companies.
Chicago Board of Trade	Chicago Board of Trade *(Part of CME)*	1848	>95%	Focuses mainly on futures and options tied to agricultural commodities, U.S. Treasury securities, and certain financial benchmarks.
NYMEX NEW YORK MERCANTILE EXCHANGE	New York Mercantile Exchange *(Part of CME)*	1872	>90%	Specializes in futures and options for energy products and metals, including crude oil, natural gas, gold, and silver.
CME	Chicago Mercantile Exchange *(Part of CME)*	1898	>95%	Offers futures and options across interest rates, equity indexes, currencies, agricultural products, and other financial markets.
MCX	Commodity Exchange *(Part of CME)*	1933	>90%	Specializes in futures and options tied primarily to metals, including gold, silver, copper, and aluminum.
Cboe Global Markets	CBOE Options Exchange	1973	~30%	Primarily facilitates trading in listed options on individual stocks, ETFs, and market indexes, including the S&P 500.
VISA	Visa	1958	>60%	Operates a global payment network that connects consumers, merchants, banks, and other financial institutions to process electronic payments.
MasterCard	Mastercard	1966	>25%	Operates a global payment network enabling electronic transactions among cardholders, merchants, banks, and governments.
Tradeweb	Tradeweb	1996	~20%	Provides electronic marketplaces for trading government bonds, interest-rate products, credit securities, mortgages, equities, and money-market instruments.
MarketAxess	MarketAxess *(Part of ICE)*	2000	~20%	Operates an electronic trading platform focused primarily on corporate bonds and other fixed-income securities.

Sources: Company filings, investor presentations, industry data, and ChatGPT estimates.

Company	Metric	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	18-25 CAGR
CME	Revenue	$ 4,868	$ 4,884	$ 4,690	$ 5,019	$ 5,579	$ 6,130	$ 6,521	6%
ICE	Revenue	$ 6,547	$ 8,244	$ 9,168	$ 9,636	$ 9,903	$ 11,761	$ 12,640	11%
MKTX	Revenue	$ 511	$ 689	$ 699	$ 718	$ 753	$ 817	$ 846	10%
NDAQ	Revenue	$ 4,261	$ 5,626	$ 5,887	$ 6,226	$ 6,064	$ 7,398	$ 8,268	10%
TW	Revenue	$ 776	$ 893	$ 1,076	$ 1,189	$ 1,338	$ 1,726	$ 2,052	18%
V	Revenue	$ 23,525	$ 21,479	$ 25,477	$ 30,187	$ 33,351	$ 36,802	$ 41,391	10%
CME	Operating Income	$ 2,588	$ 2,637	$ 2,645	$ 3,016	$ 3,436	$ 3,932	$ 4,230	7%
ICE	Operating Income	$ 2,675	$ 3,138	$ 3,551	$ 3,731	$ 3,963	$ 4,413	$ 4,999	10%
MKTX	Operating Income	$ 251	$ 375	$ 337	$ 327	$ 315	$ 341	$ 342	7%
NDAQ	Operating Income	$ 1,085	$ 1,315	$ 1,559	$ 1,661	$ 1,806	$ 1,950	$ 2,431	13%
TW	Operating Income	$ 223	$ 275	$ 372	$ 426	$ 496	$ 686	$ 845	26%
V	Operating Income	$ 15,693	$ 13,921	$ 16,886	$ 20,188	$ 22,459	$ 24,359	$ 27,723	10%
CME	Operating Margin	53%	54%	56%	60%	62%	64%	65%	
ICE	Operating Margin	41%	38%	39%	39%	40%	38%	40%	
MKTX	Operating Margin	49%	54%	48%	46%	42%	42%	40%	
NDAQ	Operating Margin	25%	23%	26%	27%	30%	26%	29%	
TW	Operating Margin	29%	31%	35%	36%	37%	40%	41%	
V	Operating Margin	67%	65%	66%	67%	67%	66%	67%	

($ in millions)

Note: the above article was written before Thursday's announcement that ICE would be acquiring MKTX. Amazing how the world can move ahead of posting a Sunday article! Regardless, we find the analysis still relevant, albeit with ICE shareholders now realizing the long-term benefit from MKTX. Long live TW!

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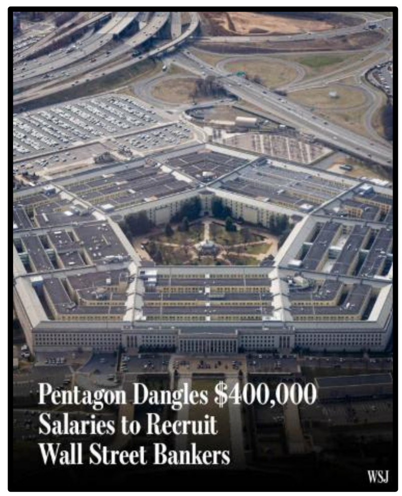
Wall Steet professionals probably aren't the answer.

Much of America's unique strength comes from its ability to allocate capital freely and efficiently (both by operators and investors). Large-scale American capital deployment began in earnest after the Civil War and has funded a variety of consequential industries across the country ever since. Consider, on the one hand, the financing of Andrew Carnegie's **physical** steel mills in the geologically rich hills of Western Pennsylvania that powered our country for nearly 100 years, and contrast that with the phenomenon of Silicon Valley, in a completely different part of the country, that manifested into a rich **human** ecosystem of investors and entrepreneurs that funded and created the technology that underpins our modern lives.

"Investors have made so much money funding American startups that there's essentially an unlimited supply of capital for the next good idea. It's one of America's greatest competitive advantages."

- John Arnold

Given the country's astonishing market successes, it's not surprising that many Americans place such a high value on the skills of capital allocators. We should not, however, overvalue that expertise at the expense of other skills (Charlie Munger was particularly critical of so many young minds going into "money management"). Overemphasizing capital-allocation skills relative to more tangible skillsets is particularly relevant right now for the Department of War; and here we're referencing a recent **Wall Steet Journal** article about the War Department's initiatives to incentivize Wall Street talent to come work for the Pentagon. What the DoW currently lacks are qualified practitioners of real-world STEM skills, so we think the Pentagon might be better served publicizing well paid engineering jobs rather than incentivizing finance professionals.



As a result of our job, we see the compensation data for thousands of DoW contracting positions, and many of the published pay rates for real-world jobs are the equivalent of $50k-75k salaries for extremely tough professions (e.g. engineering and maintenance on important military equipment in remote regions of the country). What sort of incentive is a $50-75k salary for an individual with 10+ years' experience, a top-secret clearance, and a family, to move to a remote area of the country and work on difficult missions?

America has no problem funding good ideas – just refer to the quote above from famed trader John Arnold. Better incentives (pay) for "blue-collar" and "grey-collar" work across the DoW would almost certainly be a better use of high salaries.

WISTLR

WISTLR is an M&A advisor and investment firm focused on military & civilian services businesses.

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2. To invest in & be a long-term home for lovingly built small businesses.

A Constant Pursuit to **Earn** the **Trust** of Business Owners

"I never gave anybody hell! I just told the truth, and they thought it was hell."
- Harry S. Truman