

Flash Boys

I eagerly read anything that Michael Lewis writes. He must be one of the most erudite and entertaining writers of our time. From Liar's Poker on he's produced books and essays that are highly entertaining as well as informative. I even enjoyed Moneyball, even though as a Brit I know very little about baseball. It was that good.

So now that he's turned his focus on High Frequency Trading (HFT), let's hope it causes a reaction. I've always felt that there was little social utility and possibly worse in trading systems that need physical proximity to the exchanges in order to reduce the latency in their order transmission. It's always looked like high tech front-running, although the data to show this conclusively has been frustratingly absent.

On 60 Minutes last night Michael Lewis discussed his new book – out today so I have not had an opportunity to read it yet. But his description of HFT firms viewing orders and then buying/selling in front of them was compelling. I hope it draws greater regulatory scrutiny. For our part, we almost always enter limit orders rather than market orders. Although this doesn't make us immune to the transaction tax that HFT likely represents, it's harder to exploit a participant who has a price at which they'll trade and doesn't improve it in response to changing market prices. We're willing to buy at \$50.25, and if we get hit fine but we're not going to chase it to \$50.30. A market order to buy that begins at \$50.25 can provoke HFT firms to bid \$50.26 or \$50.27 in less than the blink of an eye, causing the market order to pay a few pennies more than otherwise needed, perhaps buying from the HFT firm at \$50.30. A limit order is less vulnerable but by no means totally immune.

We think that provides us some protection, but we'd all like to know that it really is a level playing field. It also

highlights the morally bankrupt activities in some areas of Finance. If what Lewis describes is really accurate, what is the point of such activity? I'm sure we're all better off for his shining a light in this area.