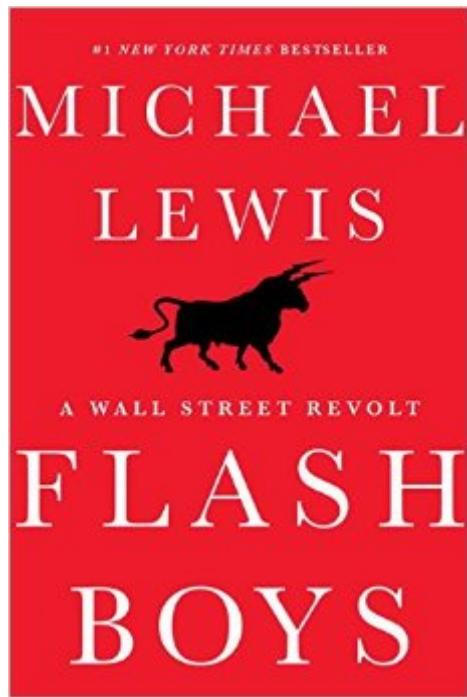


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Flash Boys



Synopsis

Four years after his #1 bestseller *The Big Short*, Michael Lewis returns to Wall Street to report on a high-tech predator stalking the equity markets. *Flash Boys* is about a small group of Wall Street guys who figure out that the U.S. stock market has been rigged for the benefit of insiders and that, post-“financial crisis, the markets have become not more free but less, and more controlled by the big Wall Street banks. Working at different firms, they come to this realization separately; but after they discover one another, the flash boys band together and set out to reform the financial markets. This they do by creating an exchange in which high-frequency trading—source of the most intractable problems—will have no advantage whatsoever. The characters in *Flash Boys* are fabulous, each completely different from what you think of when you think “Wall Street guy.” Several have walked away from jobs in the financial sector that paid them millions of dollars a year. From their new vantage point they investigate the big banks, the world’s stock exchanges, and high-frequency trading firms as they have never been investigated, and expose the many strange new ways that Wall Street generates profits. The light that Lewis shines into the darkest corners of the financial world may not be good for your blood pressure, because if you have any contact with the market, even a retirement account, this story is happening to you. But in the end, *Flash Boys* is an uplifting read. Here are people who have somehow preserved a moral sense in an environment where you don’t get paid for that; they have perceived an institutionalized injustice and are willing to go to war to fix it.

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Customer Reviews

I retired from the hedge fund world and I can tell you that this book is mostly on target. For those who deny that HFT (high-frequency trading) is a rigged game, either they are un-informed or disingenuous. It wasn't always like this. There was a time, when a bid was a bid, and an ask was an ask. If you liked the ask, you could hit the buy button and have a buy order confirmed instantly. Likewise, if you liked the bid, you could hit it and have a sale order confirmed instantly. That instant used to be measured in seconds or less. Then came along the HFT algo. All of a sudden, a bid is no longer a firm bid, and an ask is no longer a firm ask. You can hit the bid, but instead of selling instantly, you now become the ask price, and the bid just got lowered by a penny or more, and the market is moving away from you. Most of the time, the price move is a head fake - an illusion, trying to get you to trade at a price with "scalping" built-in against you. If you are willing to stick around, the precise price you want will return and you can have your trade. But other times when execution really matters, it was all real, the price you were willing to trade at just got shifted permanently right before your eyes and somebody "front-run" you. I decided to retire, partly out of disgust, partly out of my lack of financial ambition. I learned a while ago, if the first million can't make you happy, that you have to accumulate more, you will never be content. If you have to play the rigged game to add more riches to your money pile that most human beings will never see in their lifetime, I feel sorry for you. Life is too short for me to play that game. Addendum: This book was written for the lay person, so was my review.

Michael Lewis' new book "Flash Boys: A Wall Street Revolt" hit the top of The New York Times bestseller list a week after its release. As you would expect, the book is skilfully assembled and quite sensational. When I first started to read it, I too was convinced that Lewis was on to a big story, an important narrative about the seamy underside of Wall Street. But the more I read and, more important, the more I checked his story with my colleagues on the operations side of the financial markets, the more it becomes apparent that Lewis has missed the real story - and perhaps deliberately. The headline of "Flash Boys" is about Wall Street traders using fast technology and unfair tactics to trade ahead of retail investors - and they do - but Lewis misses the real issues, namely: 1) a lack of transparency and 2) deliberate complexity. It is important to distinguish between issues related to the "flash crash" of May 2010, when the deliberately fragmented ghetto that is the US equity markets almost melted down and the daily business of HFT. The former is discussed in an important 2011 paper by Ananth Madhavan of BlackRock, Inc. Unfortunately, as the title of his book confirms, Lewis combines the two issues together into an often confusing narrative that is almost impossible for laymen to understand. The abusive aspect of HFT

which Lewis rightly identifies is not so much about the speed of the trading but rather always being first in line. If you think of the current market price of a stock, a couple of years ago, the trader using HFT used to sit just above and below the current market price, and sought to execute quickly when the market price either went up or down.

"Flash Boys" has all the qualities you would expect from Michael Lewis. It's a wonderfully-written set of intertwined narratives that make the primary characters come to life. Lewis is able to do this in a way that is perhaps without equal, especially when the topic is complex. In many ways the book seems more like a novel than a nonfiction book: if you enjoy a good story, you won't be disappointed. The main narrative involves Brad Katsuyama, a trader at the Royal Bank of Canada, a relatively obscure firm that is no where near the top tier when it comes to Wall Street trading. Katsuyama discovers that his trades aren't getting filled as he expects, and he becomes suspicious and goes looking for the problem. He ultimately discovers the world of high frequency trading, and the fact that the stock market is essentially rigged by firms that are able to use their speed advantage to game the system and siphon a little money off nearly every trade. The book is a great read, and gives a pretty cohesive overview of high frequency and algorithmic trading. Lewis focuses almost entirely on the speed advantage from shorter fiber paths, but in fact there are many issues beyond that. For example, artificial intelligence is used to build trading algorithms that read special machine-formatted news feeds and place trades almost instantly. If you enjoy this book, you might also like *The Lights in the Tunnel: Automation, Accelerating Technology and the Economy of the Future*, which looks at the more general impact of computers, algorithms and artificial intelligence on the whole economy and society.

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