

Advisers worry about high-speed trading backlash from clients after Michael Lewis contention that markets are 'rigged'

“60 Minutes” segment, new book fuel concern that jittery investors will become even more skeptical

By **Liz Skinner** | *March 31, 2014 - 12:19 pm EST*

Financial advisers are concerned that their clients, like all investors in the U.S. stock market, are victims of high-frequency trading, a practice that financial author Michael Lewis highlighted on “60 Minutes” Sunday night and researched for his book “Flash Boys: A Wall Street Revolt” (W. W. Norton & Co., 2014), which is out Monday.

Mr. Lewis called the U.S. stock market “rigged” and said speed traders with advanced computers and network infrastructure generate tens of billions of dollars by executing trades before other investors. The share price difference is typically only a penny or even a fraction of a cent, the experts on the CBS television program said, but the volume of shares is high.

These aren't particularly new assertions, but the TV segment and book could stir up more concern among the general public and even regulators, advisers said. The impact on

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individual investments, however, is hard to discern.

(See also: [High-frequency trading runs over a rigged market: Barry Ritholtz](#).)

The complicated nature of trading tactics involved make it difficult, if not impossible, to measure the financial impact of HFT on client portfolios, according to advisers. But even if it's only pennies, the issue is sure to worry the investing public, which already distrusts the financial system.

"It's clear individual investors are getting the short end of the stick," said Dan Moskowitz, president and chief investment officer of Chatham Wealth Management. "Investors need to feel comfortable and need to feel like they are getting a fair shake."

Mr. Moskowitz said he's been familiar with the problems of HFT for about four years and conducts trades in ways that can protect clients from these extra costs. For instance, he uses limit orders instead of market orders.

He also suggested Mr. Lewis' portrayal of a "rigged" market "really overstates the issue," noting that the author is trying to sell books.

Paul Schatz, president and chief investment officer of Heritage Capital, said he knows HFT hurts his portfolios on any given day, especially on days when there are "enormous ups and downs," however, measuring the impact on the average person isn't possible. Also, speed traders aren't a factor in every trade.

"The vast majority of advisers can't see a measurable impact because you can't see the penny here or the penny there," he said.

Mr. Schatz also questioned Mr. Lewis' use of the term "rigged," saying that statement was "almost like yelling 'fire' in a movie theater," and could hurt the average person who is already skeptical about the financial markets.

He said speed traders have an "unfair advantage," but pointed out that this isn't a new issue.

"High-speed trading has been a problem for some time — studies show since around late 2007," Mr. Schatz said. "The infrastructure of the markets don't make it a level playing field."

Scott Brewster, owner of Brewster Financial Planning, said he hopes the "60 Minutes" episode doesn't scare investors into thinking they can't make money through long-term

investing.

“We are talking about pennies being siphoned off trades,” he said. “Although it should (and may) be illegal, I think the '60 Minutes' piece does the public a disservice if it scares the public away from investing.”

In the “60 Minutes” story, former Royal Bank of Canada trader Brad Katsuyama describes how he noticed equity prices were moving against him while he was trading and he sought to figure out how that was happening. He explained how trade intentions became visible on some exchanges faster than others and the speediest traders could take advantage of that difference.

“The best analogy I think is that your family wants to go to a concert and you go to StubHub where there's four tickets all next to each other at \$20 each,” he said. “You put in an order to buy four tickets, \$20 each and it says, 'You've bought two tickets at \$20 each.' And you go back and those same two seats that are sitting there have now gone up to \$25.”

Mr. Katsuyama has started a new trading platform, IEX Group Inc., which aims to minimize the influence of high-frequency trading strategies.

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