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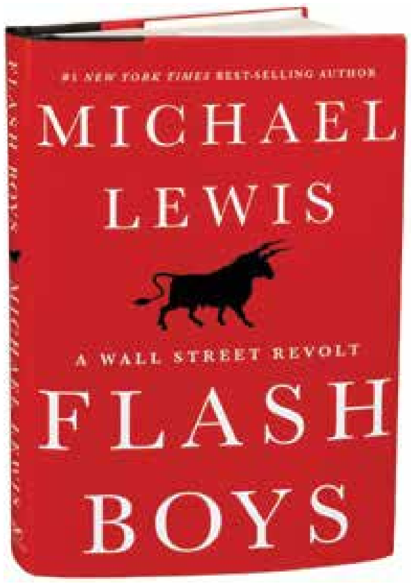

The World of Flash Capitalism

The new book, "Flash Boys," examines how high frequency trading games the system at the expense of investors.

By Evan Pondel

Editor's Note: This is a new occasional column that features reviews of books of interest to IROs. If you have read a book that you think should be reviewed (and especially if you want to review it), contact *IR Update* Editor-in-Chief Al Rickard at arickard@associationvision.com or 703-402-9713.

By the time you have read this sentence, more than 4,000 milliseconds will have likely elapsed, which, in theory, is enough time for a high-frequency trader to buy and sell shares of stock thousands of times.

Such is life in this new world of "flash capitalism," where stocks can trade nearly as fast as the speed of light. Thankfully, best-selling author Michael Lewis slows this world down in his new non-fiction book "Flash Boys," which provides a glimpse of a relatively nascent trading strategy that yields about a billion dollars in annual profits.

Lewis explores the world of high frequency trading (HFT) through the lens of Brad Katsuyama, a former global head of electronic sales and trading at RBC Capital Markets, whose realization of the ill-effects of HFT inspires him to start his own stock market exchange, the IEX. To do this, Katsuyama assembles a team of rebellious technologists and disillusioned Wall Street types to create a trading platform that makes it harder for HFT to game the system at the expense of investors.

A Journalistic Voyage

From a casual reader's perspective, "Flash Boys" is a journalistic voyage to the new Wall Street, where unsuspecting investors get duped by investment banks literally faster than the blink of an eye. The "f-word" is used frequently throughout the book to punch up the characters, but that gets old quickly and is ultimately more of a distraction.

The story of Katsuyama is compelling and admirable in his quest to understand the intricacies of HFT, although the portrayal of his departure from a big investment bank to start an exchange is anticlimactic. There are several different narratives introduced throughout "Flash Boys," and while all intriguing in their own right, the last couple of chapters fail to tie them all together.

The IRO Perspective

Investor relations folks will likely find "Flash Boys" more amusing than helpful from a strategic perspective. Most IROs are focused on managing relationships with sell-side analysts and buy-side investors, with little need to know the traders who are actually buying and selling shares.

However, after reading "Flash Boys," it is difficult to turn an apathetic eye toward those responsible for executing trades. The notion of investment banks helping high-frequency traders gain unfair advantage is disturbing and could certainly influence how much time a company chooses to spend on the road with a more HFT-oriented bank.

Interestingly, RBC, which is described in "Flash Boys" as one of the more ethical investment banks, had its analysts send out the equivalent of a research note about the book. In the note, RBC highlights that it uses technology (that Katsuyama helped develop), which protects investors from high frequency trading.

Of course, the implications of HFT and what it means to institutions, issuers, and individual investors are still murky at best. It is logical that technological advances in society beget faster computers, which beget faster trading on the Street.

The issue is that regulators are not keeping up with the "Flash Boys" that investment banks are employing to game the system. Perhaps that's the biggest lesson that is gleaned from reading Lewis' book, even if the audio version takes a laborious 10 hours to finish.

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