Lewis, Michael – Flash Boys: Cracking the Money Code

Allen Lane, 2014, [Equity Investing] Grade ★★★★

It is usually the sign of a good book if it ignites heated debate between its detractors and its supporters. Equally, it is the sign of a good book if it was written by Michael Lewis. This book delivers superbly on all promises. Lewis, who needs no introduction after smash hits such as "*Liar's Poker*", "*The Big Short*" and "*Moneyball*", is back in excellent form. This time he sets out to expose the hidden world of high frequency trading (HFT) and the harm (he argues) it is causing the rest of us.

Few writers equal Lewis in pure storytelling skill. "Flash Boys" matches the best of his previous works in portraying situations, settings and characters in a way that sucks you in as a reader. Compelling as a detective story and peppered with just the right sound bites, it is a thrill to read.

Therefore, I am not going to ruin your suspense by revealing exactly *how* Lewis thinks the HFT firms are picking the pockets of the equity market. You will have more fun as a reader if I let Lewis take you down that road. Suffice it to say that, given the current regulations and institutions, he makes a convincing case that (in the US at least) it is both possible and legal for HFT firms to sniff out what you are about to do and then do it before you. They buy what you want to buy and sell it to you at a higher price. Conversely if you are about to sell. He is equally convincing in denouncing the so-called dark pools. It appears that they are dark only to ordinary investors while being bright as a day to the HFT firms invited in by the hosting Wall St banks. Guess who wins and who loses?

You will have noticed that I refer to the work as a case argument. It is surely intended as such and not as a balanced presentation of facts. Lewis makes no secret of his opinion but some readers could perhaps take objection to the book for being a tad too one-sided.

However, Lewis is gallantly measured in assigning blame. The HFT firms are obviously painted as bad guys but he allows that anyone capable of legally exploiting the system would be inclined to do just that. Some Wall St banks are vilified but not all. Modern for-profit stock exchanges receive a thorough whipping, as do regulators. But Lewis' overriding and somewhat mitigating complaint is that today's equity trading regime has become so complex and so opaque that a lot of people could be complicit to evil without even knowing it. And that is exactly what the colorful band of heroes in his story set about to change.

The book has certainly divided opinion. On the one side are pundits who share Lewis' view of HFT firms as parasites who take home riskless profits. On the other we find those who see them as a new breed of skilled traders that provide liquidity as an added boon to the investing public. The latter view is not surprisingly being trumpeted by leaders within the HFT business.

To this reviewer, there appear to be valid points on both sides. Lewis' account comes across as utterly believable in itself, but its critics may hit a few nails as well. Their maybe most damning accusation is that the author has failed to fully understand his subject matter by choosing not to confer with HFT insiders. The author counters that he has indeed talked to HFT people and listened to their side of the story. But because of vested interest they all insist on anonymity therefore cannot be listed. As lay people we have to take both this and many other arguments on faith, in other words.

Assuming Lewis is mostly right, his book fulfils the important task of explaining what HFT is and how it is transforming the way equities are traded today. The debate on how to deal with computer trading is probably going to go on for decades. In order to participate and make informed decisions, we all need to understand the vocabulary of this debate. Apart from a delightful reading experience, my main takeaway from "Flash Boys" is a primer on that vocabulary.

Alf Riple, January 16, 2015