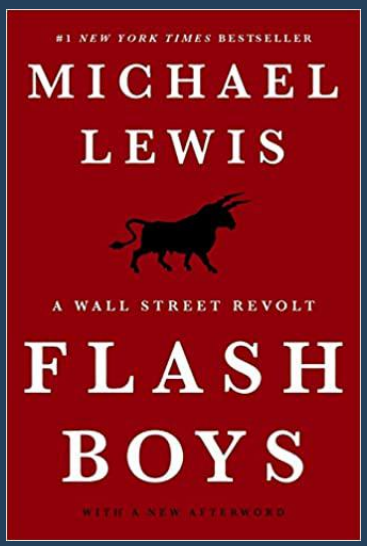


Flash Boys: A Wall Street Revolt

Flash Boys: A Wall Street Revolt
Year of publication: 2015
Author: Michael Lewis
320 pages
Link for purchase: https://amzn.to/2UHnFsK

Over eight chapters, Michael Lewis takes us on a journey into the hectic and not so honest or fair world of Wall Street. Interested in knowing this work detail by detail?

Score

8

7 Aplicability
8 Inspiration
8 Innovation
9 Impact on results
10 Structure

Main ideas of the book

- The mechanism behind the pockets is designed to allow a few to gain an advantage over many;
- If prior to 2007, the stock exchange operated on human limits, from that year technology gained space and revolutionized the speed of operations;
- Every second gain in speed is worth a lot in the financial market world;
- Preventing others from accessing this speed is part of the stock market game;
- The law was circumvented by high-frequency operators to gain advantage over ordinary investors and the speed was behind this scam;
- Understanding how a mechanism works require having the right people - read professionals in certain fields - at your side;
- "Every systemic injustice in the marketplace was born of some breach in a regulation designed to correct any previous injustice," sums up the book on fraud in the American financial market;
- There are those who manipulate the purse game to profit and those who revolt against the maracuteas, are not content to accept them and do something about it;
- To eliminate the advantages of one another in the financial market, the way out is to cut out the speed advantages.

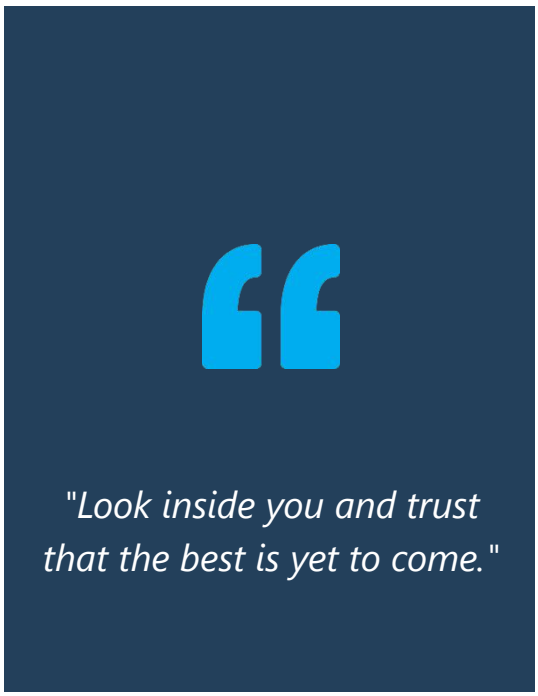
To whom is this book indicated?

This book is suitable for stock market enthusiasts who want to know better how it works and find out the mechanisms behind the financial market.

Overview of the book

Overview: Technology on the stock exchange

"Before 2007, the speed with which a broker could trade had human limits. In 2007, exchanges became just heaps of computers in data processing centers. The speed with which operations were performed was no longer limited by people, "reports the book.
One thing that highlights the importance of speed made possible by technology on the stock market is the fact that Spivey, a character quoted in the book, has taken the trouble to design a meticulous, difficult, risky, and eccentric fiber-optic project to improve the speed of operations and profit a lot from it.



Some of the technology effects on the stock market portrayed by Flash Boys are:

- Unknown People and companies started making a fortune without having to explain how they got rich;
- The emergence of a new class of Wall Street traders dedicated to new types of transactions;
- Make markets more complicated as exchanges have developed a very complex system of fees and commissions;
- Losses resulting from failures in the technology used by operators or gimmicks adopted by companies in bad faith attitudes;
- Markets that are less and less directly driven by humans and increasingly driven by machines.

Overview: An example of financial market trickery

The dark pools

This is how dark pools, private exchanges run by major brokers, are presented in the book, as they were based on certain subterfuges to function and profit.

The dark pools subterfuges

- Do not disclose to the public what was happening inside them;
- Report all transactions very late, so that it was impossible to distinguish precisely what was happening in the market as a whole at the time of the transaction;
- Maintain the mysterious internal rules;
- Only the dark pool commanding broker could know for sure where they came from and what the buy and sell orders were admitted there.

Overview: The manipulation of markets

"I understood that markets are manipulated. And I knew it had to do with technology. That the answer was under the technological surface. I had absolutely no idea where. But when I had this light, I saw that the only way to find out what was going on was to dive under the surface. "
This phrase is attributed to the operator portrayed in the book, Brad Katsuyama when he realized that a colleague from another company, like him, was doing poorly buying and selling stocks even though he used technology provided by large firms.

Brad's questions

However, even before its conclusion, Brad had already started asking this series of questions, which were presented by the book's author in the publication:

- "Why was there a difference between the stock market that appeared on your trading screens and the real market?"
- "Why, when he was going to buy twenty thousand IBM shares offered on his screens, did the market sell him only two thousand?"
- "Why, in addition to dark pools and public exchanges, were there about 60 seats, most of them in New Jersey, where you could buy any stock listed?"
- "Why did public exchanges so often move their own price list - and why did one exchange charge while another paid to perform the same operation?"
- "As a firm he had never heard of, Getco traded 10% of the entire stock market volume?
- "Why was the market featured on Wall Street trading screens was illusory?"
- "Why did stock exchanges allow ultra-fast trading?"

Beginning to understand

A starting point given by the book to understand this or to raise even more doubts appears in the passage in which the book cites a denunciation made by New York state senator Charles Schumer.
Such a complaint reports that the stock market accelerated by a fraction of a second according to information about buy and sell orders to traders before these data were publicly disclosed, provided they paid a certain amount.

Overview: Looking for answers

To find answers to his questions, one of the tactics chosen by Brad was to trade stocks without the purpose of profit, but in order to test theories. In their experiments, their team concluded that:

- "As the number of grants increased, so did the percentage of orders executed," says the book;
- "The more places they tried to buy stock, the fewer they could buy," the book reports. Save one exception;
- The difference in speed, even a small fraction of a wink, could result in huge consequences in the marketplace.

"Madness" to understand the mechanism

Going against common sense, they created a program to embed delays in orders to the shorter arrival times, so that they would arrive at the same time as the longer ones.

Result

When they went to test the program, the screens turned green, meaning that they managed to catch the whole lot of actions they tried. The implied conclusion was that someone took advantage of stock market orders arriving at different times to profit from it.

Rather than get in the mood and profit from his discovery, Brad chose the noblest and most difficult way out: he decided that they would make an educational campaign about what he understood. And this came in part through a program called Thor, which served to protect investors from the pitfalls of Wall Street.

Overview: New Allies = More Answers

Later Brad and his bank hired product manager John Schwall, an eccentric, detail-obsessed fellow. It was after meeting Brad that he concluded some things.

John's Conclusions

- Orders on the exchange were not executed because one could identify what the other was trying to do and pass in front of the person to get to the other exchanges first;
- Someone was perpetuating fraud: There was a manipulation of the National Financial System Regulation, called Reg NMS, which aimed to create equal opportunities in the US stock market;
- The cat leap from this manipulation was precisely speed: high-frequency operators had advantages in this regard over ordinary operators;
- So-called smart routers, which were used to discover the exchange with the best official price of an item and send orders there, routed investors into traps set by high-frequency traders by following Reg NMS.

More conclusions for Brad

Brad also came to new conclusions through Schwall's research work: He noted that all the big Wall Street banks took advantage of speed differences in the market for what the book calls "snapping up their prey." Worst of all, the technology professionals involved in this mechanism seemed to have no idea what they were involved in, unaware of the unfairness of the system to which their work was of great relevance.

Overview: A new pouch to protect predator-prey

Brad and his team knew the Wall Street scams closely and were intended to give the American stock market fairness and equity. The way out of this would be the creation of a new scholarship. But that didn't go free for Brad: he had to resign from the bank where he worked.
When he had a meeting with David Einhorn, Brad found an almost obvious argument for his venture: creating a single stock exchange to take care of investor interests, protecting them against predators on Wall Street.

The structuring of a new scholarship

The new exchange was called Investors Exchange and was abbreviated to IEX. To get her to go as desired, Brad hired specialized professionals named in the book of Masters of the Riddle, whose work involved:

- Ironically, ensuring that the new scholarship had no riddles, no problems to solve;
- Examine the characteristics of existing scholarships;
- Study the types of stock market orders that had one thing in common: creating advantages for high-frequency traders over investors.

The results of the analysis of the Riddler Masters

In their analysis, they saw the existence of three activities that resulted in a great deal of unfair and unfair negotiations, which depended on speed:

- **Electronic front-running:** Someone saw an investor try to do something in one place and ran ahead of him in the next place;
- **Rebate arbitrage:** use of new market complexities to capture commissions;
- **Slow Market Arbitrage:** "A high-frequency trader could see a share price change on one exchange and then pick up outstanding orders on other exchanges before they could react," the book details.

A strategy for IEX to do its job

For the new exchange to be truly safe for everyone, Brad and his team needed to eliminate the advantages of high-frequency traders since they could not stop them from trading on it.
Since they could not prevent some people from obtaining information before others, the solution was to control the number of moves they could make to make money on this inside data.

After much thought, Brad and his team realized that by placing the new exchange's computer well away from where traders were connecting to it, it required that those interested in trading be within a good distance of it, most of the speed advantages. would be eliminated.
IEX was born, however, as might be expected for a stock market that was meant to revolutionize the financial market, things were much more complicated in practice than they appeared to be in theory.

What other authors say about it?

In "The Intelligent Investor" Benjamin Graham explains how to invest in stocks and the characteristics of an investor who knows how to play the stock market: discipline and consistency.
Author Jill Schlesinger, in her book, "The Dumb Things Smart People Do With Their Money," warns the reader: Financial advice must come from the right people. If you have problems with money, it is advisable to seek a financial advisor to help you plan your spending.
Finally, in "Unshakeable: Your Financial Freedom Playbook," Tony Robbins gives valuable advice: If you are not careful, taxes can easily eliminate 30% or more of your return on investment. in the net amount that you will actually be able to keep.

Okay, but how can I apply this in my life?

Some steps you can take to exercise the book's teachings in a practical way in your life include:

- Understand that the stock market is much more ingenious than it looks - long behind its appearance;
- You need to be smart, persistent and thorough to learn how the scholarship mechanism works;
- Finding the answers about the mechanisms behind the financial market does not require - and should not - get into the game and just be one without morale profiting from others;
- It is always possible to choose the hard way and to act with nobility, sharing with others your discovery;
- Not accepting silent injustices - it is always possible to investigate and do something about them - whether they occur in the financial market or in any other area of society.

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