It's Confirmed - The Stock Market is Rigged!

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In his recent *60 Minutes* interview, Michael Lewis said it loud and clear: The U.S. Stock Market is rigged. Lewis, one of this nation's most respected financial writers, exposed in the interview that the "market is rigged," in favor of high-speed electronic trading firms, which use their advantages to obtain billions from investors. His latest book, "Flash Boys" Lewis uncovers this shady topic of high-frequency trading - a strategy in which traders and high powered Wall Street firms use computer algorithms to buy and sell stocks in the blink of an eye.

The interviews have been quite inflammatory, which is good business if you are Michael Lewis and want to sell a lot of books!

The bad news: Indeed, it's all true. *The good news*: It's completely irrelevant to you and others who invest soundly.

Lewis, best-selling author of *Moneyball, Liar's Poker,* and *The Blind Side,* exposes the sly advantage that many powerful professional traders employed by large brokerage firms, are able to get when they build high-speed fiber optic cable feeds directly into the computers that match buyers and sellers of securities. Some of those traders actually have their trading computers located in the same room as the New York Stock Exchange and Nasdaq servers. They are further permitted to purchase access to more information on who wants to buy and sell more quickly, than those day trading at home or through a discount brokerage account.

So, is it fair that some buyers and sellers have a millisecond advantage over other investors? Lewis says it's all perfectly legal, it's undeniably unscrupulous.
It gives them the ability to spot a person's intention to purchase some stocks, jump ahead of them to make the buy, and then sell the shares to the intended buyer at a slightly inflated price. All this is done before the person even sees the bid on screen. By doing so, they are able to skim only pocket change on each transaction. But, doing it thousands of times a day adds up to millions of dollars a year.

So, what does this mean to you? In reality, not much. But it does drag down two types of investors – The first is day traders, who foolish try to outwit the markets by impetuously jumping in and out of stocks. Secondly, it impacts some naive traders at hedge funds who may not have access to the fastest server or a direct feed into the Nasdaq servers. Combined, these groups make up a large population of today's investors. It makes you wonder whether they watched Lewis' *60 Minutes* interview and discovered for the first time that the money machine known as Wall Street is fleecing them once again.

For those of you investing wisely long term, you can just sit back and observe this Wall Street train wreck. For you, milliseconds don't matter. It's irrelevant how many times the stocks you own inside of a mutual fund or ETF, or directly in your retirement account, change hands or at what price every few minutes. Whether your stocks are up or down in any given month or year doesn't even matter, as long as you are steadily building value over time. Remember this, your time frame is for growth is a pragmatic, long-term strategy, not an impulsive, rapid fire approach. So, all these quick switches going on daily have no measurable impact on your long-term investment returns.

One important point that was surprisingly overlooked in the *60 Minutes* interview. It neglected to report all the potential landmines and can cause financial disaster in the greedy world of rapid fire trading. The Hall of Fame of trading losses includes $9 billion lost in credit default swaps by a single Morgan Stanley trader from 2004 through 2006, or the $7.2 billion lost by Societe Generale trader Jerome Kerviel over a few days in 2008, or the $2 billion "London whale" losses in 2012. These numbers are not uncommon. Countless investors have generated staggering losses using their millisecond speed advantage, confirming that even the smartest operators aren't necessarily raking in the profits.

So what does the Lewis interview teach us? First, it reveals, yet again, the fact that the gluttonous Wall Street culture is there to make money *from* you, not *for* you. If I were conducting the *60 Minutes* interview I would have asked: What's the economic purpose served by fast-twitch traders? Are they merely trying to make money for their wirehouse employers by purchasing and selling individual stocks multiple times a day ahead of other investors? And how does this benefit our economy? But, I think we all know the answers to these questions.

The Lewis interview also drives home once again the absurdity of short term investing. The idea of an ordinary investor trying to outmaneuver the markets with short-term trading activities will always prove to be a short sided error.

Hopefully, these lessons reconfirm the wisdom of having a long-term investment strategy – one where you don't sweat the small stuff or the milliseconds. Rather, you focus on the horizon and the comfort of knowing you are have a sound plan for your future.

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