

## High Frequency Trading

Michael Lewis' new book titled "Flash Boys" has brought a lot of public attention to an enormous issue this industry has struggled with for years. I'm very happy this attention is here and it's long overdue, hopefully the people in charge will address the issues and deal with them now that they're truly exposed for what they are.

Let's first define what high frequency trading is. This is high tech trading driven by computers, algorithms (this is what is being referred to when you hear or read about algobots) and other high technology tools for the pure purpose of skimming a few fractions of a penny off a trade, they hope every single trade made. This type of trading isn't for long term investors as most of us are, it's just a sophisticated "scalping" system to make a lot of money quickly. Most high frequency trading systems don't employ leverage, accumulate positions or hold positions overnight. This whole concept is to make a lot of trades, generally in the millions, and take a tiny slice out of each one. There are brilliant math and computer minds behind the scenes in high frequency trading. This all began in 1999 following a 1998 law that allowed for electronic exchanges from the SEC.

High frequency traders are not market makers at all, in fact many in our industry call them market takers. Their objective isn't to make an orderly market in a security, their objective is to beat the next guy to a trade and just scrape a tiny profit out of as many trades as they can find. Today the trade is indeed sophisticated, they're using computers to scan social media, live news feeds and trade orders to see what is coming up, hoping to get in front of a trade that is already out there to squeeze a tiny profit from it. These trades are massive in volume, but they take tiny profits from each one in tiny time horizons. Many HFT trades are measured in milli or micro seconds, much faster than a human being could ever perceive.

The HFT firms are in a big race to be the best, have the best technology and the best equipment to get the data faster than anyone else. A point many despise is the building of a \$300 million dollar fiber optic network to get data 3 milliseconds quicker than the next guy. This isn't market making, this isn't adding liquidity, the buyer and seller would have found one another in a few milliseconds anyway, it's just plain old cheating. (Cont'd on Pg. 2)

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## Shopping!

Americans love to shop! This is a societal phenomenon so let's take a look at a few aspects of shopping as well as how the sellers try to get us to do more of what we may otherwise not do without their sinister influence. In general, I prefer online shopping to the real deal, with the exception of cars and electronics, I need to touch and feel those things before I can buy them.

We all must eat and therefore we all must go grocery shopping, or have it done for us. This is a joy for some and a royal pain in the neck for others, but it's clearly a need decision. I've often wished we didn't live in a tiny little town just so we could get the Peapod service, this is Stop & Shop's home delivery food service. I'd sign up for that in a heartbeat! We live in a town that has the same population as a cruise ship, it's just not worth it for a company to put the resources into delivering food to us out in the sticks. I don't understand how the business model makes any sense for them, they only charge \$6.95 per delivery (if it's over \$100.00) and \$9.95 if it's over \$60.00. The food is the same price as in the store.

Even if you don't want to have the food delivered to you, the service exists for you to go online, do all of your shopping, and someone at the store will put it all together for you so you don't have to spend the 30-90 minutes in the store to gather all of your goods. You arrive and give them your name and BAM, your food is there and delivered to your car. This is almost like takeout pizza, but take out groceries. Only in America does this type of convenience exist. Convenience for the sake of avoiding exercise is bad but for the sake of saving time it's wonderful. This is a wonderful idea but having someone else pick out produce for us may be an issue. We're known to be a hair on the picky side so that may not work. We're going to try this and we'll report back to you just how good or bad it is. Please let us know if you've ever tried this, it seems like it's going to save a lot of time and also take out the impulse buying that stores physical layouts are designed to elicit.

If you use this type of service to get your groceries it's only going to cover part of your shopping list if you're like most people and you hit a few stores to get your goods as each place seems to have the best prices on certain items. They're surely hoping the convenience of this tool will allow them to capture more of your shopping dollars and that will likely be the case for those who value convenience over price. This is the model of our society on a lot of levels, best shown by the coffee houses such as Dunkin Donuts or Starbucks. \$5.00 - \$10.00 for a cup of coffee is lunacy to me but it's all about the experience so people will pay. With that in mind, I'd prefer not to have the experience of having to shop for groceries anymore so perhaps this is a new alternative.

**Continued on page 3**

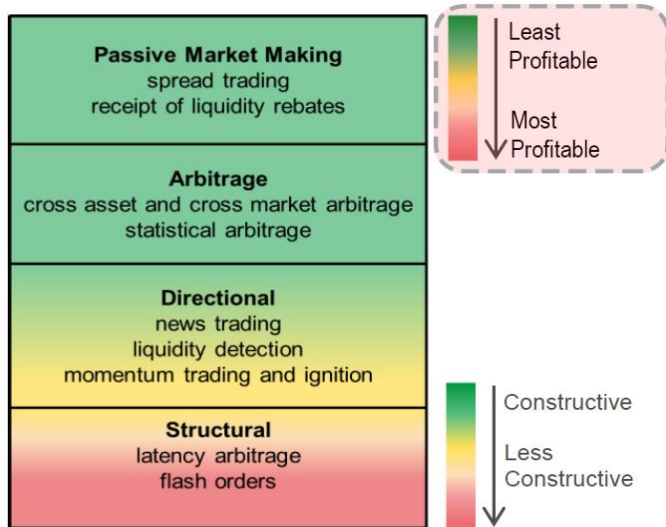
# High Frequency Trading (Cont'd from Pg. 1)

A few things exposed from the book really tick people off and the political clouds are now hovering over this industry to expose it for what is really is, nothing useful or fair.

In Lewis' book, his leading character Brad had a big problem. Every time Brad tried to buy stock for a client he could only get a tiny fraction of what he wanted at the quoted price. He saw the exchange had plenty of supply of the stock he wanted at the quoted price, but his orders were being filled by other exchanges at higher prices. Why on earth would this be? It's because exchanges sell their order information to HFT firms to give them an edge. Yes, this actually happens in 2014 America. Many times the orders were being filled at the exchange closest to him, as the high speed fiber optic lines got the HFT firms the data the fastest, they saw his orders, bought the stock cheaper on the lowest price exchange and sold to Brad at the exchange closest to him. This data selling came to light six months or so ago by general economic data and it's essentially they'll give the highest bidder the data a few milliseconds before everyone else. How can this be fair you ask? It's not, not in any way or even close to fair, its front running on every level. Bottom line is HFT firms are getting order data from exchanges and public economic data from many sources BEFORE the rest of us. Many in our industry have shaken our heads and wondered for years how this is happening, hopefully now it's coming to a close.

Our friends at Blackrock have shared the following info graphic with us to show a few of the ways the SEC defines the various ways HFT firms are operating in the market today.

## HFT STRATEGIES



Source: BlackRock. Note that the HFT strategies listed were defined by the SEC in its Concept Release on Equity Market Structure, available at: <http://www.sec.gov/rules/concept/2010/34-61358.pdf>.

This new level of public interest in HFT should result in a leveling of the playing field for the rest of us. It's not just HTF firms that are in the spotlights, we'll be hearing a whole lot more about dark pools too in the coming days, weeks and months. Big brokers, big banks and hedge funds all partake in this practice, some are already shutting their doors or distancing from the practice as the scrutiny grows. This is good news for the rest of us. ☺

# Transportation Technology

I'm a self-confessed car nut, a junkie, an addict of anything automotive related. Cars today are not only mechanical contraptions, but technological masterpieces. Some cars today have 20 computers (small ones, but computers nonetheless) in them to help do all of the things technology allows us to do today. Some of this technology is great on every level such as the navigation and audio functions. Other aspects of this technology is painful, such as the black boxes, the inability to turn off traction control and actually drive in snow, etc. Some parts of this technology I'm still on the fence with such as self-parking (how does one get a driver's license if (s)he cannot park the car?) and self-driving now. I have absolute zero interest in a self-driving car, the experience of driving is wonderful on every level and I think this will be a hard thing for the industry to push onto us. Many cars are now roving internet hot spots as they're connected to 4G networks, have live data feeds, use streaming music such as Pandora and can access your computer, email, texts and schedule from your PC.

What power will cars run into the future? It appears electric cars are really getting some play today and we have hybrids, pure electric cars, natural gas vehicles and of course good old reliable fossil fuels still dominate – gas and diesel. Fuel cells seems to be creeping back into the mix as well and this is a technology I always thought was the true answer to our energy needs. Rather than moving the problem from the pump to the electric provider, fuel cells actually change the game with one of the most abundant elements on earth, hydrogen. The byproduct is water and there is a lot of technology in between. Fuel cells may not dominate cars yet, but they're popping up in surprising places such as warehouses, data centers, telecom towers, buses and forklifts.

Fuel cells are not the only new kid on the block, we've got serious entrants now on the solar front for daily drivers. A lot of these technologies rely on how good battery technology can become. I think it's just a matter of time before the battery technology will be strong enough to allow storage of energy to be a serious threat to traditional fossil fuels. Companies are trying to find ways to make the highways charging stations on the go so the hot black asphalt surface will serve as a solar cell as well as a road. This is a smart move, whoever makes this happen, if it happens, we want to be on that train for sure.

The way cars are being made is changing too, they're looking to make everything lighter so aluminum instead of steel seems to be part of the recipe in that department. Carbon Fiber and ceramics also seem to have places in automotive building as they offer properties over traditional steel in various uses and parts.

On the airplane front, the best news is most carriers now have Wi-Fi (wireless internet) on the plane for us to work or play while we're getting from point A to B. This could be real game changing technology as our society is mobile, people travel a lot and spend an enormous amount of time on jets. This has the potential to be a serious industry moving forward. At any one point, there are over 3,000,000 people in airplanes around the world. In the USA alone, there are over 87,000 flights a day. Think about how many there are in the entire world that is mind boggling. ☺

## Noteworthy News!!!

- Congratulations to the Saraceni family on the birth of baby Michael, he joins big sister Juliana to make the family a foursome. With two young kids, there will be no free time in that household for the foreseeable future! ☺
- Our condolences to the Hall & Ciesco families on the passing of Corrine Hall, a wonderful woman, wife, mother, sister, person and friend.
- Our condolences to the Zaepfel and Melanson families on the passing of James Zaepfel, a wonderful father, husband, brother, grandfather, uncle person and friend.
- Our condolences to the Segreto family on the passing of Richard Segreto Sr., a wonderful man, husband, father, brother, uncle, grandfather and friend.

## Question & Answer

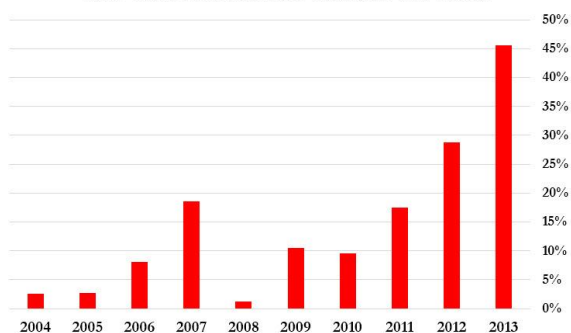
Ask any financial question you have and we'll address it here.

**Q:** *What are cov-lite loans that are all over the news these days?*

Cov-lite is typical financial industry acronym speak for covenant light loans. Covenants in loans are conditions built into commercial loans or bond issues that requires the borrower to fulfill certain conditions or forbids the borrower from undertaking certain steps. A covenant can also restrict a borrower from certain activities under specified circumstances or unless specified conditions are met. Covenants are built into loans and bonds to protect the lender (bank, finance company or bond purchaser) from loss or default.

There is a whole lot of talk on cov-lite loans these days as the percentage of loans with covenants in them is dwindling to levels we've never seen before. The reason for this is likely due to monetary policy, with rates being so low there is a monster global push for yield and money is flowing into places quickly and issuers are taking advantage of this. This isn't smart, it's actually quite foolish that people are behaving this way but in the face of apparent financial bliss, people are making poor decisions lately. These loans with no or few covenants are creating an environment where the financial risks are increasing at a scary rate. Look at where we are today in context of the last decade in cov-lite loan issuance. Some people never learn, this is just another example of easy money, easy credit policies that end poorly! This is a Bloomberg chart. ☺

Cov-Lite Issuance As Percent Of Total



## Shopping! (Cont'd from pg. 1)

In the world of easy shopping Amazon has recently launched a new scanner they call the Dash for your home. You can scan in the items you just used and are about to throw out by pointing a laser at the barcode, and this cool little device puts the item in your Amazon shopping cart. If you don't have a barcode, you can simply speak into the device what you're looking for and this too will be added to your shopping cart. This is true genius and it should have been invented a long time ago. Of course with this technology you're forced to buy at Amazon, which may or may not be where you want to shop. I used to do a lot with them but I find myself now moving away from them in favor of smaller competitors.

The next level of this technology will be for a company to come up with a similar device, but to put them all online in your personal shopping cart, not a company specific shopping cart, for you to then further direct where you'd like to buy each item. Taking it a step further, this technology, once placed in your cart, will know where to buy each item for the best price, after delivery, and have it automated for you as businesses have their inventory automatically replenished as it's used. How much time could we save in our daily lives if the things we consume that just need replacing were as easy to go and get as simply scanning or talking into a device, likely at some point just an app on a smartphone.

The way it works now is something in our world is consumed, fails, wears out or breaks, we make a note to put it on our list when we get to it. We rarely immediately put it on our list or remember to do so at the first chance. Instead we run into the same problem of something is missing in our lives a few times before it actually gets to our list. Now it's on the list, and perhaps we have more than 1 list in a few places and don't have all of the items we need in one place. Next we'll be at the store but we've forgotten our list at home so we buy what we can remember, often the majority of our list but there are always stragglers. Sometimes we'll even get through the store with our list and still fail to buy everything we needed. We'll also go to one store to buy the bulk of the things on our list but a few items can only be had at the store next door but when we get back in the car it's on autopilot and we drive home without thinking about it. When we return home we realized oh crap, we forgot to stop at store # 2, which was in the same plaza as store #1, but they're both 15-30 minutes from home so we'll just get it next time we're out or near there.

In the war between the Amazon only shopping cart and the open architecture one, once it's here, which will be the clear winner long term? This is similar to the current tech war with Apples closed architecture in all of its products going head to head against the open architecture of the Android platform. It seemed just 2 years ago Apple owned the tech world, now it's apparent that the closed architecture system isn't the way to go in the end and people want choices, not an "ecosystem" exclusive to one company where they have no choices.

When shopping, you must be conscious of how things are placed in the stores and how you're being influenced, some say manipulated☺. Every aspect of a store is designed to separate you from your money so be aware of everything ranging from the signage (sale, discount, bargain, etc. elicit Pavlovian responses in people) colors, scents, layout and location. Many times the deals are hard to find. There is a reason casinos have no clocks, no sunlight and free drinks! ☺

## Money Quiz

This month's challenge is to tell us how immigrants are entrepreneurs. What % of high tech firms started in the past 20 years have 1 or more foreign born founders? Last month's quiz was won by Luis Perez, only 16% of Americans are covered by defined benefit pension plans in 2013 vs. 85% in 1975! ☺ Winner goes to Ruby Tuesday on us!

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## Benefits Checkup

Benefits are complicated today, especially with the new health care law up and running. I'd like someone to explain the math of this behemoth, but we'll let time tell us just how well planned out this new law is. For our seniors, there is an absolute plethora of options for them but we've got a new resource to help manage benefits.

This is a site to visit if you or anyone you love is a senior citizen, it places a lot of resources in one page by asking a few simple questions. This will quickly show you what the person is eligible for, who to contact and potential costs. Here is the site:

[www.benefitscheckup.org](http://www.benefitscheckup.org)

I've been in this business for 20 years and have never seen a site this comprehensive that can help people navigate the waters of medical, Medicaid, state, charitable and other programs all in one space.

Many people today are worried about their benefits and how to continue on after retirement. This helps navigate social security, Medicare, extra help with Medicare, prescription, state and charitable programs available based on the persons history.

The National Council on Aging puts this site together with a focus on adults age 55 and up. There are over 2000 federal state and private benefit programs to help those age 55 and up, but how to navigate this maze is the challenge. This is the best site I've seen yet to help with that process. People may find they qualify for help with the following issues here:

- Health benefits
- Medications
- Food
- Utilities
- Housing
- In home services
- Taxes
- Transportation
- Employment training

It's a great site to visit just for the education of it all and to see what is out there. Thanks to Michele Telash for pointing out this invaluable resource to me! ☺

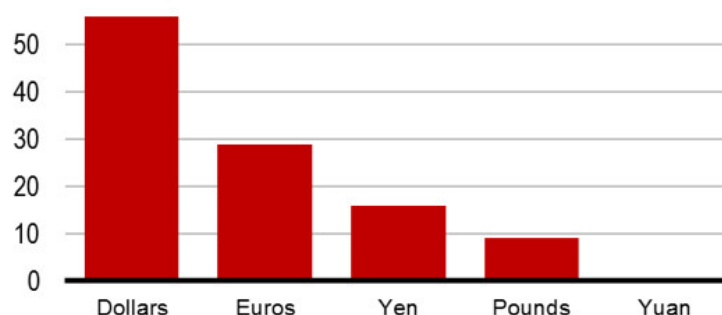
## Dollar Detonation!

People often talk these days about the demise of the dollar and how it's going to be worthless very soon. There is plenty of merit to that theory as the political class is living a fantasy world where they never have to make tough decisions and they just keep printing money to put a band aid on bleeding jugulars of budgets across the globe. They believe they can continue to spend more than they take in clear into infinity. Let's hope they get the necessary wakeup sometime soon. I don't see that playing out but I'm equally saddened at the path we're traveling down. It's going to be tough to get out of it and along the way things will likely get ugly.

In the interim, the greenback has been the reserve world currency for a long time and we've deserved it up until the past 5 years or so. As much as I'm disgusted with the behavior of the leaders, the rest of the world is nothing to write home about. Here is a quick glimpse into just how many financial assets are available to an investor as a security asset in various popular currencies.

### The Dominant Dollar

Estimate of security assets available to international investors in mid-2013, in trillions of USD (yuan is 0.25)



Source: Emerging Advisors Group

We by far lead the pack in security assets dominated in dollar demontionas at \$56 trillion. The next closest option would be the Euro at 29 trillion. The Yen is in 3<sup>rd</sup> place at \$16 trillion and the Sterling at \$9 trillion. The popular adage of "China owns us" is a bit off the mark, as we can see by this chart the barely perceptible amount of real investable assets in yuan demonitions is only \$250 billion. This is only 0.10% of the total pie avaiable in this sampling.

Looking at these monster global currency options, although we're not going down a good path, the alternatives are less attractive than we are. It's a bit mind boggling that even with our poor stewardship, we're the best option in the globe as a safe haven. Even in the past 5 years our status has only gotten stronger from a safe haven perspective. Whenever the world gets scared, they seem to end up coming to the USA to find safety. It's all relative, I don't view our current fiscal state as healthy, but we do have the economic capacity to fix it. We just need the political will and that likely won't come until there is some type of a crisis to deal with. Either way, it'll get addressed but unfortunately it'll likely be an involunatry action! ☺

## Inspirational Quotes

- Let us be grateful to people who make us happy, they are the charming gardeners who make our souls blossom, author unknown
- To understand is hard. Once one understands, action is easy, author unknown
- If you can keep your head when all about you are losing theirs and blaming it on you. If you can trust yourself when all men doubt you, but make allowance for their doubting too; this is true wisdom. Rudyard Kipling
- Vision is being able to see the invisible, author unknown
- A leader takes people where they need to go, a panderer takes them where they want to go, Jim Broderick.
- Bad things do happen; how I respond to them defines my character and the quality of my life. I can choose to sit in perpetual sadness, immobilized by the gravity of my loss, or I can choose to rise from the pain and treasure the most precious gift I have – life itself. - Walter Anderson



**We can piece the puzzle together and make your money work for you!**

**Don't make excuses; make things happen; make changes; make history!**

## Kids Korner

Let the kids dream, dream big, and help them follow their dreams. Young kids ask an average of 400 questions a day, that's no joke, it's how they learn. If we allow our kids to dream and dream big, and work with them on taking the little steps to accomplish their goals, they'll quickly realize they can do just about anything they want, it's all a mentality. We give our princesses the ability to do things on their own just to see how much they can handle, and then help them along the way if things get over their heads. Sometimes the kids don't even need us, they can use some of the new high tech tools like Skype, YouTube or other technologies where they can learn from other "nontraditional" sources. These are things we never had, but they're amazing in many ways. They're so different but equally capable. Dreams are their future, the more we can help them understand they can make them their reality the better off we'll all be as a society. ☺

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