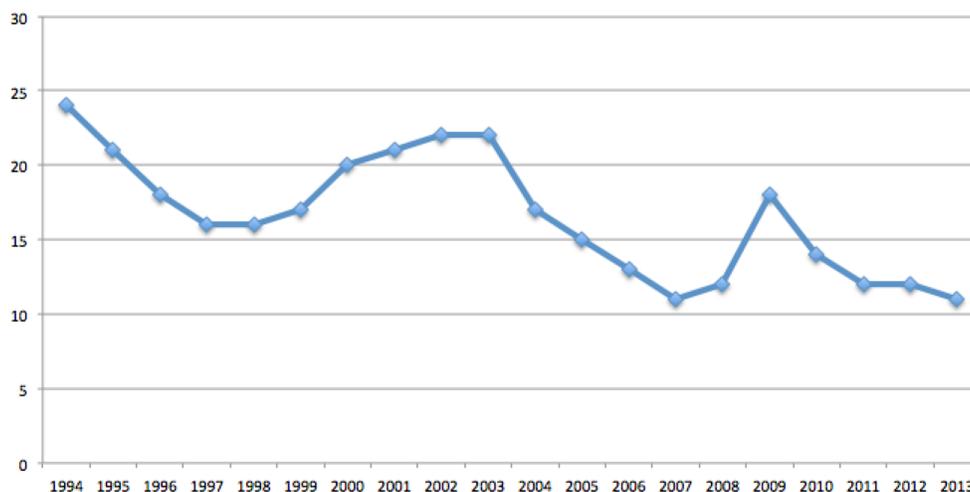


Lewis Book Misses The Big Picture

- Michael Lewis' new book is certainly generating its share of attention and controversy. Unfortunately, it gets many things wrong and completely misses the big picture of today's modern financial markets. Lewis instead chose to focus on business models that benefit from scaring the public about the markets. The investing public deserves better than this kind of fear mongering.
- The truth is that while the markets have changed dramatically since the days in the 1980s chronicled by Lewis in *Liar's Poker*, most of these changes have been for the better for investors. Back then, Wall Street traders stood on trading floors, and matched buyers and sellers manually with shouts and hand gestures. The floor traders were shielded from much competition or public visibility, and as a result, transaction costs for investors were very high — multiples of what they are now.
- Today, this process is dramatically different. The vast majority of trades are matched by computers more efficiently than in the old days, and with many fewer errors. As a result, markets have become more competitive and more transparent, profit margins for intermediaries have been squeezed to much less than a penny a share, and, by every available metric, trading costs for both retail and institutional investors have declined dramatically.
- The evidence is clear. Vanguard's former Chief Investment Officer perhaps put it best when he stated that investors saving for retirement could see their balances increase by as much as 30% due to such cost savings. That is not trivial, and something Michael Lewis's new book conveniently ignores.
- The graph below plots the decline in all-in trading costs for institutional investors like mutual funds. The improvement for retail investors has been even more dramatic.
- There are many reasonable critiques that can be made about today's markets, and many ways indeed to improve them. However, it would be a mistake to think about imposing changes that might feel good, but would instead turn away from the openness, transparency, and modernization that have provided so many tangible benefits to investors of all sizes.

Institutional Transaction Costs Since 1994 (bps)



Source: Abel/Noser Corp.

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