Sounding The Alarm: Latency Arbitrage

March 31, 2014

West Chester, Pennsylvania – One of TFS Capital's Founders and Portfolio Managers, Rich Gates, is featured in Michael Lewis's new book, Flash Boys: A Wall Street Revolt. Gates was instrumental in helping to shed light on issues with high frequency trading used by large Wall Street firms in dark pools and exchanges.

For instance, in March 2009, Gates was quoted in the Wall Street Journal article titled, "Measuring Arbitrage in Milliseconds" discussing latency arbitrage trades. TFS believes this was the first time latency arbitrage was mentioned to the media or discussed on the Internet. Presently, the term has more than 10,000 mentions when "Googled."

In January 2010, Gates sent a letter to the U.S. Securities and Exchange Commission (the "SEC") less than two weeks after the SEC asked for feedback to its Concept Release on Market Structure. The letter was the first of only a handful of responses the SEC received to reference latency arbitrage.

In the June 4, 2010, Wall Street Journal article titled, "Fast Traders' New Edge," Gates profiled a specific trade that appeared to be impacted by latency arbitrage. TFS believes this was the first specific example cited in the media of such a trade.

Links to these articles and the letter to the SEC are below.

Gates said "TFS Capital hopes Flash Boys is wildly successful. We have the utmost respect for Mr. Lewis and many of the other individuals referenced in the book. We are optimistic through open and honest discussion among industry participants, market experts and academics, the market structure will continue to improve so that it benefits all investors."

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http://blogs.wsj.com/marketbeat/2009/03/09/measuring-arbitrage-in-milliseconds/

http://www.sec.gov/comments/s7-02-10/s70210-25.pdf

http://online.wsj.com/news/articles/SB10001424052748703340904575285002267286386

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