Written by Rob Copeland
Wednesday, 09 April 2014 12:52 - Last Updated Wednesday, 14 May 2014 22:54

Is the stock market rigged? If you watched a recent "60 Minutes" interview with author Michael Lewis, you might think so.

Lewis was promoting his new book, "Flash Boys," which describes how tech geeks have gained an unfair advantage over the rest of us by using superfast trading technology. These high-frequency traders, Lewis says, use their technology to enrich themselves at other investors' expense.

The uproar over "Flash Boys" has investors concerned that they're the suckers in a game that's fixed. But my take is this: Regular investors don't have much to be concerned about from high-frequency trading.

Let's take a step back and put this story in context. First, the book was designed to make a splash and to make money for its author and publisher. The media interviews with its author are part of the marketing push aimed at boosting sales. So you should take the hype about the book with a grain of salt.

Now let's look at the issue of high-frequency trading itself. It's true that this practice can drive up the prices of stocks. Basically, the high-frequency traders use their technology to determine which securities are about to be bought so that they can buy the securities a microsecond earlier, mark them up, and instantly sell them to the intended buyer for a profit.

It sounds unfair, and it probably is. But put it in context: We're talking about prices being raised by fractions of pennies here. For the regular investor, buying GE at $20.01 rather than $20 is not going to make an appreciable difference in their long term investment outcome. If it does, then that investor is doing something seriously wrong.

What's more, the transactions that regular investors make are typically so small that they don't make it into the system of exchanges where high-frequency traders ply their trade. The folks who should be concerned about what's described in Lewis' book are the institutional traders, including hedge funds and banks, that constantly trade huge blocks of stocks and bonds. For players trading a million shares at a time, that penny markup on each share makes a big difference.

Regular investors, in other words, are playing a completely different game. Rather than trading in rapid fire fashion where every penny is crucial, we invest over the long term in companies that we believe will grow and reward us. Perhaps we pay a penny more to buy a stock than we would in a perfect market. But again, at the end of the day, if a penny is what makes or breaks my investment, then I'm in trouble.

Yes we pay a price to buy a stock or bond, but that price isn't multiplied by millions of times, as it is with high-frequency, big-block traders. Think of any little markup when you buy an investment as a small toll on a long, long highway to your financial destination.

If you step back and look at it, the cost of investing in the markets is cheap. When you buy and sell real estate, you pay about 9% to agents, lawyers, insurance companies, mortgage brokers and other gatekeepers. When you buy a share of a stock, on the other hand, the spread—the markup charged by the seller—might be just .003% on a $10,000 purchase. And that's far cheaper than was the case back in the mid 1990s, when trades could have a spread as high as 2.5% to 5%

My advice about high-frequency trading: Let the hedge funds and other big-block traders worry about it. As a long-term investor, currently, it will have little or no impact on your results.