

On Money and More: Let's Get Started!

by Erich & Matt Patten, Cutler Investment Group

Cutler Investment Group is excited to be launching a financial information column in the Jacksonville Review. Your hosts for this column will be our Portfolio Management team, led by Erich and Matthew Patten, Jacksonville Elementary Pioneers and avid readers of our local paper since our youth. We are proud to be Jacksonville's hometown investment advisory firm and are pleased to contribute our two cents to the Review's town dialogue. We would like this column to tackle a range of possible topics that you might find interesting, covering the global financial markets (like this month's edition) all the way through to individual money matters like contributing to your IRA or understanding what role bonds can have in your portfolio. If you have interest in a particular topic or there is something about investing that you have never fully understood, reach out to us at review@cutler.com and we'll give it a try!

High Frequency Trading: What does it mean for investors?

Since Michael Lewis' recent appearance on 60 Minutes, the media has been abuzz with the negative impacts of High Frequency Trading (HFT) on the equity markets. Mr. Lewis has previously penned books such as "Money Ball" and "The Big Short" and recently authored a book highlighting the practice of High Frequency Trading. HFT involves very high powered computers moving in and out of trade orders at fractions of a second (actually milliseconds, or a fraction of the amount of time it takes to blink your eyes). The algorithms that these traders design create the impression of market liquidity, but once orders are placed, these algorithms, along with incredibly high speed internet, place orders at markets all over the East Coast in a practice known as "front running." Front running creates the opportunity for these traders to get ahead of retail investors (you and me), extracting pennies by playing off of the bid/ask spread on a trade. Aggregating these pennies has allowed HFT traders to accumulate billions of dollars of trading gains. This is clearly a practice that regulators (the Securities and Exchange Commission) should eliminate. But in the meantime, what is the real impact for investors such as Cutler clients? We believe the impact has been minimal for a couple of reasons:

HFT only hurts retail investors when they trade. Strategies that implement less portfolio turnover, have less exposure to the HFT "tax." At Cutler, we are patient investors and look to the long-term value of a security when making a purchase. The new computer-driven HFT is "day trading" on steroids. Low stock-turnover strategies (such as those Cutler utilizes)

lead to lower trading costs—both explicit (such as commissions) and implicit such as bid/ask spreads (the spread between the current offer to buy and the offer to sell).

More subjectively, you can take solace that trading costs have dropped significantly in recent years, but that does not mean HFT has not had a negative impact on trade executions. We think it is worth mentioning, however, that trading equities, even accounting for the likely costs of HFT, has never been cheaper. Trading has become predominantly electronic, eliminating the need for a "floor broker" on the exchanges. Costs for execution have been greatly streamlined and more access has been given to the individual investor trading on their own behalf.

While the markets today are more liquid and accessible than ever before, there is always room for improvement. We believe that this practice has reached an inflection point, and that regulators will work to reduce the ability of HFT to operate in a similar fashion. Our hope is that any unintended consequences of these possible new regulations won't negatively impact liquidity or the explicit costs of trading.

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Erich Patten is President and Chief Investment Officer. He is a graduate of Jacksonville Elementary School and South Medford High School. Erich earned a BS in Economics from the Wharton School, University of Pennsylvania, and a Masters in Public Policy from the University of Chicago. See ad this page.

Friendship Force of Southern Oregon Making Friends Around the World




Pictured here, **Mavis Marney** and **Gladyce Maloney**, both of Jacksonville, prepare treats for visitors attending the **Friendship Force of Southern Oregon (FFSO)** open house held recently at Royal Mobile Estates. Mavis and Gladyce shared the pleasures of getting to know people from other states and nations while staying in their homes. Mavis's most recent trip with FF was to Morocco, where she stayed with three different Moroccan families, sharing their daily activities

and enjoying their food. Gladyce, as well as Mavis, has home-hosted visitors from other Friendship Force clubs who have come to our area to get to know us and see the highlights of Southern Oregon. FFSO meets monthly at Royal Mobile Estates and welcomes visitors to share in the mission of building bridges that promote global understanding by forming personal connections with others. For information, call 541-896-1232 or visit www.ffaoregon.org.

C U T L E R






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History matters: it matters to Jacksonville and it matters to Cutler Investment Group, headquartered at Bigham Knoll. For three generations Cutler has been providing conservative, income- focused investment solutions for individuals and tax-exempt institutions. The Portland Business Journal recognized us as a Top Investment Manager in 2013 (ranked by Assets Under Management). Please stop by to learn how we can help.



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