## Wall Street doesn't know what business it is in. Regulators don't know what the business of Wall Street is. Investor/shareholders don't know what business Wall Street is in.

The only people who know what business Wall Street is in are the high frequency and automated traders. They know what business Wall Street is in better than everyone else. To traders, whether day traders or high frequency or somewhere in between, Wall Street has nothing to do with creating capital for businesses, its original goal. Wall Street is a platform. It's a platform to be exploited by every technological and intellectual means possible.

**The best analogy for traders ? They are hackers**. Just as hackers search for and exploit operating system and application shortcomings, high frequency traders do the same thing. A hacker wants to jump in front of your shopping cart and grab your credit card and then sell it. A high frequency trader wants to jump in front of your trade and then sell that stock to you. A hacker will tell you that they are serving a purpose by identifying the weak links in your system. A trader will tell you they deserve the pennies they are making on the trade or the rebate they are getting from the exchange because they provide liquidity to the market.

I recognize that one is illegal, the other is not. That isn't the important issue.

The important issue is recognizing that Wall Street is no longer serving the purpose what it was designed to . Wall Street was designed to be a market to which companies provide securities (stocks/bonds), from which they received capital that would help them start/grow/sell businesses. Investors made their money by recognizing value where others did not, or by simply committing to a company and growing with it as a shareholder, receiving dividends or appreciation in their holdings. What percentage of the market is driven by investors these days ?

I started actively trading stocks in 1992. I traded a lot. Over the years I've written quite a bit about the market. I have always thought I had a good handle on the market. Until recently.

Over just the past 5 years, the market has changed. It is getting increasingly difficult to just invest in companies you believe in. Discussion in the market place is not about the performance of specific companies and their returns. Discussion is about macro issues that impact all stocks. And those macro issues impact automated trading decisions, which impact any and every stock that is part of any and every index or ETF. Combine that with the leverage of derivatives tracking companies, indexes and other packages or the leveraged ETFs, and individual stocks become pawns in a much bigger game than I feel increasingly less comfortable playing. It is a game fraught with ever increasing risk.

So back to the original question. What business is Wall Street in ?

Its primary business is no longer creating capital for business. Creating capital for business has to be less than 1pct of the volume on Wall Street in any given period. (I would be curious if anyone out there knows what percentage of transactions actually return money to a company for any reason). It wouldn't shock me that even in this environment that more money flows from companies to the market in the form of buybacks (which i think are always a mistake), than flows into companies in the form of equity.

**My 2 cents is that it is important for this country to push Wall Street back to the business of creating capital for business. Whether its through a use of taxes on trades(hit every trade on a stock held less than 1 hour with a 10c tax and all these problems go away), or changing the capital gains tax structure so that there is no capital gains tax on any shares of stock (private or public company) held for 1 year or more, and no tax on dividends paid to shareholders who have held stock in the company for more than 5 years**. However we need to do it, we need to get the smart money on Wall Street back to thinking about ways to use their capital to help start and grow companies. That is what will create jobs. That is where we will find the next big thing that will accelerate the world economy. It won't come from traders trying to hack the financial system for a few pennies per trade.

**And solutions won't come from bureaucrats trying to prevent the traders from hacking the system. The only certainty when bureaucrats step in is that the law of unintended consequences will smack us all in the head and the trader/hackers will find new ways to exploit the system that makes them big money and even more money for the big institutions that develop products for the other institutions that are desperate to play the game.**

**Regulator**s have got to start to recognize that traders are not investors and vice versa and treat them differently. Different regulations. Different tax structure. Different oversight. Individual investors and the funds that just invest in stocks and bonds are not going to crash the market. Big traders who are always leveraging up and maximizing the number of trades/hacks they make will always put the system at risk. We need to recognize that they do not serve much of a purpose other than to add substantial risk to the global economy. That their stated value add of liquidity does not compensate the US and World Economy nearly enough for the risk of collapse they introduce into the system.

**Wall Street as a whole needs to be in the business of creating capital for companies and selling shares to investors who believe they are shareholders. The Government needs to create simple and obvious incentives for this business and extract compensation from the traders/hackers for the systemic failure risk they introduce.**

**There will be another flash crash, and probably a crash far worse than the May 2010 flash crash simply because there are too many players looking for the trillion dollar score. They can't all win, yet how many do you think wouldn't risk everything, even what is not theirs, for that remote chance to score big ? Put another way, *there is zero recognition of the moral hazard attached to every trade. So why wouldn't traders take the biggest risk possible ?***

**There is value to trading automation. It is here to stay. There is absolutely NO VALUE to High Frequency Trading. None. We need to bring our markets back to their original goals of creating capital for business.** It's impossible to guess how many small to medium size companies have been held back from growing and creating jobs and wealth because of lack of access to capital from the stock market. It's not impossible to know that our economy has suffered because Wall Street equity markets are no longer a source of equity for helping companies grow, it is not a platform for hackers and that needs to change. Quickly.