

A WILD THURSDAY ON WALL STREET

What's the difference between "billions" and "millions"? About 650 points.



Did a mistake make a selloff more severe? The Dow Jones Industrial Average settled at 10,520.32 Thursday, May 6, 2010 after a 347.80 loss, with fears over European sovereign debt affecting Wall Street. Yet the 347.80 decline was just half the story.

The Dow also saw its greatest-ever intraday swoon Thursday, diving 998.50 below the open at one point and taking an intraday swing of 1,007 points.^{1,2}

What happened? At this point, it looks like the same kind of thing that happened on Black Monday in 1987: technology and trading errors betrayed Wall Street.

That was "millions", not "billions"! Citing multiple sources on May 6, CNBC and Reuters reported that a trader, possibly at Citigroup, mistakenly typed a "b" for billion instead of an "m" for million – apparently when authorizing a trade concerning Procter & Gamble. P&G shares fell 37% at one point (more than \$22) before recovering to lose 3% on the market day.^{3,4,5}

As the selloff gained momentum, some weird things happened Thursday. In a stretch of two minutes, 16 billion e-minis (futures contracts tied to the S&P 500) were sold. Accenture became a penny stock – no kidding, share values were showing up at \$.01 on the New York Stock Exchange at one point. PG and 3M shares actually went below the "circuit breaker" level on the NYSE, freeing traders to purchase and sell shares of those companies on other exchanges. Clearly, technology was running wild.^{4,5,6}

Will trades be erased? Apparently some will be: Thursday evening, the NASDAQ announced it would cancel all trades of stocks whose prices moved more than 60% between 2:40-3:00pm EST on May 6. Just minutes after that news item, the NYSE said it would do the exact same thing.⁷

What's the lesson here? Don't panic. Be patient. Don't succumb to impulse when it comes to stocks. In the last few years, we have seen amazing market volatility AND amazing rebounds - and the resilient bull market we've seen has taught every investor that stocks can impressively snap back. Curse the technology that caused this swoon if you like, but keep fundamentals and diversification ever in mind.

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Citations

1 – money.cnn.com/ [5/6/10]

2 – cnbc.com/id/36988229 [5/6/10]

3 – cnbc.com/id/36999483 [5/6/10]

4 – money.cnn.com/2010/05/06/markets/markets_newyork/index.htm [4/29/10]

5 – cnbc.com/id/36988229 [5/6/10]

6 – blogs.barrons.com/stockstowatchtoday/2010/05/06/no-ordinary-collapse-dow-snaps-back-from-1000-pt-drop/ [5/6/10]

7 – reuters.com/article/idUSN0614132620100506?type=marketsNews [5/6/10]