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Swiftness of Dow Drop Due to Computers

By THE ASSOCIATED PRESS

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NEW YORK (AP) -- A computer glitch triggered a sudden plunge in the Dow Jones industrial average at mid-afternoon Tuesday, turning an already bad day in stocks into a head-turning spectacle.

[Dow Jones & Co.](#), the media company that manages the well-known index of 30 blue chip stocks, said it discovered shortly before 2 p.m. that its computers weren't properly handling the day's huge volume in trades at the [New York Stock Exchange](#).

It switched to a backup computer, and the result was a massive swoon in the index as the secondary system took over processing shortly before 3 p.m.

The Dow plunged about 200 points almost instantly, and was down as much as 546 points -- its worst single-session decline in more than five years, and one that sent the blue chips into negative territory for the year.

"I've never seen a collapse like that, and I've only been doing this for 47 years," said Alfred E. Goldman, chief market strategist at A.G. Edwards & Sons Inc.

The heavy volume of some 4.5 billion trades, almost double the average, came on a day in which investors worldwide were rattled by a nearly 9 percent drop in Chinese stocks overnight. Investors, draped in concerns that stocks were overvalued and that economic weakness was at hand, began crying "sell" from the outset.

"The market's extraordinary trading volume caused a delay in the Dow Jones data systems," said Dow Jones spokeswoman Sybille Reitz. "We decided to switch over to the backup system, and the result was a rapid catch-up in the published value of the Dow Jones industrial average."

The sheer number of sell orders caused a bottleneck, where some traders reported that systems were slow to respond.

Despite the delays, the closing prices on Tuesday were accurate, the exchanges said.

The NYSE said none of the delays were related to its hybrid trading system, which combines trades executed by floor brokers with those that are fully automated. The Big Board suspended its electronic platform to bring about an orderly close, and reverted trading to floor brokers.

A spokesman said the exchange expects an orderly opening on Wednesday.

The Dow closed down 416.02, or 3.29 percent, at 12,216.24; the Standard & Poor's 500 index fell 50.33, or 3.47 percent, to 1,399.04; and the tech-dominated [Nasdaq](#) composite index was off 96.66, or 3.86 percent, at 2,407.86.

"It was literally seconds. I had never seen anything like that before," said Ryan Larson, senior equity trader at Voyager Asset Management, a subsidiary of RBC Dain Rauscher. "The nature of a trader is you're very skeptical of everything. I just needed to find out that it was real."

To the chagrin of many investors, the drop was indeed real.

Todd Leone, managing director of equity trading at Cowen & Co., said trading became difficult.

"Some of the books froze up," he said, referring to the systems in which traders place their orders. "You couldn't really trade. You couldn't really make sales." He said orders appeared to become backed up. "Once they unfroze the Dow fell."

There are safeguards to keep such pullbacks from getting out of hand.

One measure, known as trading collars, kicked into effect Tuesday shortly after 1 p.m. when the New York Stock Exchange Composite index lost more than 180 points. That index ended the day down 342.03 points, or 3.6 percent.

The collars put a chokehold on certain orders, forbidding transactions that capitalize on discrepancies in prices.

There are also more draconian measures that weren't invoked Tuesday. Known as "circuit breakers," these safeguards force traders to take a time-out. The Big Board developed these measures following the October 1987 crash and a mini-crash in October 1989.

The drop Tuesday, however unnerving, wasn't the 1,250 point decline in the Dow industrials that would've been required to suspend trading. While the rules vary depending on the time of day and the severity of the drop, the exchange can halt trading for as little as a half hour to two hours, or in some cases, end the day's session early.

AP Business Writer Joe Bel Bruno contributed to this story from New York.

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