# MV Capital Management Weekly Market Flash

## The Era of Glitches

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“Be careful about what you wish for. You might get it”.

Since the late 1980s the world’s financial markets have undergone a radical democratization, opening the door for retail investors even of modest means to access markets and assets previously the exclusive domain of the very wealthy, at a steadily decreasing cost. The twin facilitators of this financial mass marketing have been liberalization and technology. Liberalization – the break-up of old structural monopolies like the New York Stock Exchange into multiple trading exchanges, systems and platforms. Technology – the means by which information on prices and other raw data traverse the globe at light speed. But there is a dark side to this imagined financial utopia.

*Lights Out, Nobody Home*

When the NASDAQ exchange went dark, literally, for three hours on Thursday it was not something out of the blue but only the latest in a long string of technical “glitches” that have plagued markets with increasing, and worrying, frequency. We live in an era of glitches, from which nobody is immune. Just two days before connectivity problems with its main data feed brought the US’s second largest exchange to its knees, Wall Street behemoth Goldman Sachs disrupted markets during a 17 minute panic resulting from over 800,000 erroneously executed options contracts. Last year Knight Capital, a major market maker, nearly went out of business after a coding error dumped hundreds of millions of unwanted positions into their account. Then there was the Facebook IPO debacle and the flash crash of 2010, and these are just the ones that make the headlines.

*Elusive Centers of Accountability*

Part of the problem is that the decentralized structure that makes trading cheaper and more accessible also makes the system architecture more complex and the centers of accountability more diffuse. In the US alone there are 13 stock exchanges and some 40-odd “dark pools” that facilitate private trading between thousands of institutional market participants. When problems arise like the NASDAQ securities information processor (SIP) connectivity glitch, you can’t just call the IT guy and have him go into the server room and fix the problem. And that’s just the hardware side. On the software side securities markets are now dominated by algorithms programmed to make hair-trigger decisions on patterns and events. Behind every algorithm is someone’s computer code, and as examples like the flash crash and Knight Capital remind us, even the smartest programmer is prone to make mistakes.

*Vigilance and Oversight Needed*

There are no cure-alls for technology risk. But we need responsible oversight and a regulatory approach that anticipates the future rather than just cleaning up the mess after it happens. Much good has come of the democratization of markets, for many people. Their interests and financial well-being are second to none in importance, and need to be the sole concern of the market’s institutions and policy leaders.

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