Technical Glitch Halts Nasdaq Trading for 3 Hours

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New York (AP) — A mysterious glitch halted trading on the Nasdaq for three hours Thursday in the latest major electronic breakdown on Wall Street, embarrassing the stock exchange that hosts the biggest names in technology, including Apple, Microsoft and Google.

The problem sent brokers racing to figure out what went wrong and raised new questions about the pitfalls of the electronic trading systems that have come to dominate the nation's stock markets.

Nasdaq said only that the problem lay in its system for disseminating prices and that it planned to investigate.

The outage disrupted what had otherwise been a quiet summer day on Wall Street. It was another in a series of technical problems to disrupt financial markets in recent years, though less alarming than the "flash crash" plunge of May 2010.

"The market has gotten quite complex and needlessly so," said Sal Arnuk, co-founder of the brokerage Themis Trading.

The Nasdaq, an exchange dominated by some of the largest, most prosperous technology companies, sent out an alert shortly after noon that said trading would stop. The Nasdaq composite index spent much of the afternoon stuck at 3,631.17.

Trading resumed at 3:25 p.m. Thirty-five minutes later, the day ended with the index up 38 points, or 1 percent, at 3,638.71.

Investors were not at risk of losing any money from this type of glitch, said Marty Leclerc at Barrack Yard, chief investment officer at Barrack Yard Advisors.

"Clearly it's an annoyance, but it doesn't in any way affect the value of your underlying assets," Leclerc said. "Warren Buffet used to say that if you own a stock, you ought to be comfortable with it even if the market were to close for a year."

During the outage, the Nasdaq said it would not cancel any orders stuck in limbo, but that customers were free to cancel them.

The stock of the exchange's parent company, Nasdaq OMX, took a hit Thursday, falling $1.08, or 3.4 percent, to close at $30.46 in heavy trading.

Phil Stern, a former Securities and Exchange Commission attorney for 10 years, said Nasdaq could face significant financial penalties and other sanctions.

"It's pretty significant for an exchange to be shut down this long," Stern said. "The disruption to the marketplace is huge."

The White House, the Treasury Department and other government agencies monitored the disruption.

Brad McMillan, chief investment officer of the independent brokerage Commonwealth Financial, said competition between rival exchanges for customers is partly to blame for recent trading problems. The exchanges try to bring in more business with the promise of faster trading, which makes them more reliant on new technology.

"The more trading is tied to technology, the more computer crashes matter," McMillan said.

McMillan called the interruption an "inconvenience," comparing it to other times when snowstorms and squirrels have closed the market. In August 1994, trading on the Nasdaq stopped for 34 minutes after a mischievous squirrel chewed into power lines near the exchange's computer center in Trumbull, Conn.

Thursday's shutdown was another sign that the days of stock brokers in colorful jackets roaming the floor of the stock exchange have faded away. Now powerful computer programs dominate trading by sifting through reams of data and executing trades in fractions of a second. That makes trading faster and, arguably, more efficient. But it also introduces more possibilities for errors that can jolt the entire market.

Last year, BATS Global Markets tried to go public on its own exchange but had to back out after a computer error sent its stock price plunging to just pennies. Nasdaq mishandled Facebook's public offering last spring, when technical problems kept many investors from knowing if their trades had gone through and left some holding unwanted shares. And in April, the Chicago Board Options Exchange shut down for a morning because of a software problem.

Then there was the 2010 "flash crash" in which the Dow Jones industrial average fell hundreds of points in minutes before eventually closing 348 points lower. It was one of the first major problems that revealed to the public the potential dangers of computerized trading.

One of the lessons from the flash crash was that it's better to stop trading and reopen a market in a fair and orderly manner than to have messy trading, said James Angel, a finance professor at Georgetown University who specializes in the structure and regulation of financial markets.

"I think people are so used to the fact that every once in a while the power goes out and a computer crashes," Angel said. "As long as the trading is fair and orderly, I don't think that's going to deter people from investing."

Trading glitches can also change fortunes. A technical bug spelled the end for Knight Capital as a stand-alone company. It marred the company's long-standing reputation as a stellar risk manager after sending stocks of dozens of companies swinging wildly on Aug. 1 of last year.

It also left Knight, which takes orders from big brokers like TD Ameritrade and E-Trade, on the hook for many of the stocks that its computers accidentally ordered. Knight teetered near bankruptcy and this summer was taken over by the high-speed trading firm Getco.

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Associated Press Business Writers Christina Rexrode, Steve Rothwell, Marcy Gordon, Chris Rugaber and Jim Kuhnhenn contributed to this report.