



IBM, Coke Investors Whipsawed by Hourly Swings

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Investors in three of the biggest Dow Jones Industrial Average (INDU) stocks were whipsawed by price swings that repeated every hour yesterday, fueling speculation the moves were a consequence of computerized trading.

Shares of International Business Machines Corp. (IBM) ([IBM](#)), McDonald's Corp. (MCD) ([MCD](#)) and Coca-Cola Co. (KO) ([KO](#)) swung between successive lows and highs in intervals that began near the top and bottom of each hour, data compiled by Bloomberg show. While only IBM finished more than 1 percent higher, the intraday patterns weren't accompanied by any breaking news in the three companies where \$3.42 billion worth of shares changed hands.

Regulators have increased scrutiny of computerized strategies that have risen to prominence in the U.S. after more than a decade of market structure reform. The Securities and Exchange Commission and Commodity Futures Trading Commission blamed a broker's trading algorithm

for setting into motion the events that caused the May 2010 market crash that briefly erased \$862 billion from U.S. equities in less than 20 minutes.

“Somebody probably has software that’s running an algorithm that’s either selling in 30-minute intervals or buying,” Bruce W. Weber, dean of the Alfred Lerner College of Business and Economics at the University of Delaware, said in a telephone interview. “For the market value of Coke to be going up and down in this way, oscillating every hour, is a pretty disconcerting observation. This is not going to raise investors’ confidence in the mechanics of our market.”

Value Traded

John Nester, a spokesman for the SEC, declined to comment on the trading. Kent Landers, a spokesman for Coca-Cola, Vineeta Durani of IBM and Danya Proud of McDonald’s didn’t respond to phone and e-mail messages sent after normal business hours.

“We’re not aware of any issues,” said Rich Adamonis, a spokesman for the New York Stock Exchange, where the companies are listed. “Nor were there any circuit breakers or other halts applied to those stocks. We didn’t receive any complaints in our market. Everything was fine.”

Together, the three companies represented 14 percent of the value of trading in Dow stocks. IBM, which reported results July 18, made up 8.1 percent, with \$2.03 billion changing hands, more than every stock in the index except Pfizer Inc., the data show. Yesterday had the highest value traded for the three stocks since March 16, when \$3.52 billion changed hands, and it is almost twice the 2012 average of \$1.96 billion.

Intraday Low

Coca-Cola’s intraday ([KO](#)) low was \$76.50 at 9:58 a.m. The stock rose to \$77.25 at 10:28, fell 0.7 percent to \$76.71 at 11 a.m., rose 0.9 percent to \$77.40 at 11:29 a.m., and fell 0.8 percent to \$76.79 at 11:59 a.m. It hit successive highs at 12:29 p.m., 1:22 p.m. and 2:29 p.m., data compiled by Bloomberg show.

IBM, whose earnings topped analyst estimates, closed up 3.8 percent at \$195.34, the biggest gain in the Dow. During the day, the stock climbed 0.77 percent or more to an intraday high six times, each time losing almost all of its gain in an hour. The shares reached highs of \$196.59 at 12:28 p.m., \$196.44 at 1:27 p.m. and \$196.49 at 2:29 p.m., data compiled by Bloomberg show.

“It’s conceivable there was an algo involved but most don’t run on the half hour,” said Bernard Donefer, a professor at Baruch College who wrote the April 2010 article “Algos Gone Wild” for the Journal of Trading. “They run every couple of minutes, or seconds or even faster. That doesn’t make any sense. It doesn’t seem like something you would see with a normal algo.”

Audit Trail

The SEC voted last week to require exchanges and the Financial Industry Regulatory Authority to build a single system to monitor and analyze trading activity on U.S. equity and options markets. The rule mandates a so-called consolidated audit trail to expedite surveillance across 13 equity exchanges, 10 options markets and more than 200 broker-dealers that execute stock trades away from public venues.

The effort is part of the agency's response to the May 6, 2010, stock rout that temporarily sent the Dow down almost 1,000 points. The so-called flash crash was triggered by a mutual fund firm's algorithmic trade that sparked the rapid selling of futures because it took into account volume but not price or time, according to a report released by the SEC and CFTC in October 2010.

While swings in the Dow average yesterday didn't track the individual companies, their influence showed in the 116-year-old gauge. Its high for the day came four minutes before 12:30 p.m. and the second-lowest point subsequent to that was reached at 1:59 p.m.

"I don't think this is of the magnitude of the flash crash," Weber said. "What this shows is there's software in the market that was not calibrated or tested against a type of condition that appears to have emerged where liquidity-supplying algos were backing away just when the liquidity-demanding algos were appearing. That appears to have caused the fluctuations to be much more extreme."

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