The New York Times

# Knight Capital Says Trading Glitch Cost It $440 Million

**By Nathaniel Popper** August 2, 2012 9:07 am

**4:01 p.m. | Updated**

$10 million a minute.

That's about how much the trading problem that set off turmoil on the stock market on Wednesday morning is already costing the trading firm.

The Knight Capital Group announced on Thursday that it lost $440 million when it sold all the stocks it accidentally bought Wednesday morning because a computer glitch.

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The losses are threatening the stability of the firm, which is based in Jersey City. In its statement, Knight Capital said its capital base, the money it uses to conduct its business, had been "severely impacted" by the event and that it was "actively pursuing its strategic and financing alternatives."

The losses are greater than the company's revenue in the second quarter of this year, when it brought in $289 million.

"With the events of yesterday, you have to question if this is the beginning of the end for Knight," said Christopher Nagy, founder of the consulting firm KOR Trading.

**Timeline: Trading Errors**

Shares of Knight Capital closed down 63 percent, at $2.58, on Thursday. On Wednesday, the shares fell 32 percent.

The problem on Wednesday led the firm's computers to rapidly buy and sell millions of shares in over a hundred stocks for about 45 minutes after the markets opened. Those trades pushed the value of many stocks up, and the company's losses appear to have occurred when it had to sell the overvalued shares back into the market at a lower price.

The company said the problems happened because of new trading software that had been installed. The event was the latest to draw attention to the potentially destabilizing effect of the computerized trading that has increasingly dominated the nation's stock markets.

Until this week, Knight had been one of the biggest beneficiaries of the evolution of the market, helping clients trade in and out of stocks at high speeds. The firm was responsible for 11 percent of all trading in American stocks between January and May, according to Adam Sussman at the data company Tabb Group.

On Thursday, Knight said that none of its customers had been hurt by the errant trades.

Still, the trading glitch is especially uncomfortable for Knight's chief executive, Thomas Joyce. Mr. Joyce, 57, has been at the helm of the company since 2002. Now that his firm is in the spotlight, it's embarrassing for Mr. Joyce because he was a vocal critic of the hiccups that upended the Facebook public offering in the middle of May. At the time, Knight suffered $35.4 million in losses because the trades the company was making in Facebook shares weren't registered by Nasdaq for hours.

Knight was founded in 1995 and went public in 1998 after quickly becoming one of the largest middle men, or market makers in the stock market. Knight founded owns only a minority stake in the company.

Knight has become known for executing trades on behalf of retail brokers like TD Ameritrade and ETrade. It is the major player in the business along with UBS, Citibank and the Chicago firm Citadel.

Mr. Nagy of KOR Trading, who used to work for TD Ameritrade, said that large retail brokers were likely to find alternatives if Knight were unable to continue taking in new business. But he added that Knight had “unmatched” connections with smaller banks and brokers, and those smaller firms may have trouble immediately finding a replacement for Knight.

Knight had recently been increasing its business and reported having 1,418 employees as of the end of the first quarter of this year in 21 locations around the world.

***Correction: August 2, 2012***
*An earlier home page headline about the Knight Capital Group developments referred incorrectly to the company as a hedge fund. It is, as the article correctly notes, a trading firm.*