Cost of glitch for Knight Capital: $440 million (Update 2)

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(AP) — It's turning out to be one costly glitch. A technical problem that briefly threw dozens of stocks into chaos Wednesday will cost Knight Capital Group $440 million, the trading firm said Thursday. Knight's own stock plunged for a second day, erasing 75 percent of its value in two days. The company also said it is pursuing ways to raise money to fund the expense, raising questions about the firm's viability. And at least two financial institutions announced they had halted trading with Knight, at least temporarily.

Knight's embattled CEO Thomas Joyce appeared publicly for the first time Thursday to defend his firm in the aftermath of the trading disaster.

"You cannot keep people from doing stupid things," Joyce said in an interview on Bloomberg Television. "That is what happens when you have a culture of risk."

In the two days since the glitch occurred, Knight's stock has fallen to $2.58 from $10.33 on Tuesday. Knight takes orders from brokers like TD Ameritrade and E-Trade and routes them to the exchanges where shares are traded.

E-Trade Financial and Vanguard said they were not routing trades through Knight for the time being, but would continue to assess the situation. Vanguard spokesman John Woerth called Knight "a longtime and valued partner."

TD said it was doing test runs before routing trades through Knight. It planned to keep sending orders as long as Knight "remains in good standing" with stock exchanges. "They've been a good and trusted partner," TD spokeswoman Beth Evegan said.

Knight, which on Wednesday had directed clients to route their trades with other vendors, didn't make the same request Thursday, according to TD. A spokesman for another brokerage, Fidelity, declined to comment on whether the brokerage was still routing trades through Knight. About a third of Fidelity's orders go through Knight, according to a regulatory filing.

Knight Capital Group said the problem was triggered when it installed new trading software, which resulted in the company sending numerous erroneous orders in 140 stocks listed in the New York Stock Exchange. Those orders were behind some sudden swings in stock prices and surging trading volume shortly after the market opened on Wednesday.

Wizzard Software, for example, shot above $14 after closing the night before at $3.50. Abercrombie & Fitch jumped 9 percent within minutes, hitting $36.75 after closing the night before at $33.80. Harley-Davidson suddenly fell 12 percent, to $37.84 from $43.23.

The New York Stock Exchange said Wednesday morning that it was examining unusual trades in about 140 stocks. Later in the day it canceled trades of six smaller stocks that had wide swings, including Wizzard. Knight Capital said Thursday the software had been removed and that clients were not negatively affected.

For investors, it was the latest breakdown in the increasingly complicated electronic systems that run stock trading. Those systems have been showing signs of strain as more traders and big investment firms use powerful computers to carry out trades in mere fractions of a second.

These trading issues have become so problematic and frequent that many experts believe they have shaken investors' faith in markets, especially after the deep losses they suffered during the financial crisis and the recession that followed. As a result, many small investors have been fleeing the stock market.

"It's speaking to the lack of trust that retail investors have with Wall Street," said Dave Abate, senior wealth adviser at Strategic Wealth Partners in Seven Hills, Ohio. "Firms are getting punished whenever there is any hint of an error or a situation where the little guy is possibly being taken advantage of. I think there's just zero tolerance for that."

The latest disruption came in May, when technical problems on the Nasdaq stock market marred Facebook's debut as a public company, preventing some investors from knowing if they'd bought shares or being able to sell them.

The most visible and chaotic malfunctions occurred in May 2010, when the Dow Jones industrial average dropped nearly 600 points in five minutes, an event that was dubbed the "flash crash." The problem at that time was also traced to technical glitches.

In the 26 months since the flash crash, there have been inflows of money from retail investors in only six months. The total net outflow of money over that period from stock funds was $172 billion, according to fund consultant Strategic Insight.

This glitch is an ironic embarrassment for Knight's CEO Joyce, who publicly criticized Nasdaq for the problems with Facebook's initial public offering.

Joyce, who had undergone knee surgery on Tuesday, came back to work on Wednesday to the chaos in the markets emanating from the firm he leads. On Thursday, he tried to reassure investors and defend high-speed trading practices.

"We have all hands on deck and we understand what the issues are," Joyce told Bloomberg TV. "We are talking to a lot of capable people, people who are in touch with situations like this. So, we're working hard and we have all hands moving forward to address this and resolve this."

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