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Unhappy Hour

Posted by MarketBeat Staff

Annelena Lobb reports:

Daily trading activity has featured two distinctive sections: the six-and-a-half-hour slog that opens the day, and the "lightning round" frenzy that is the last hour. The final 60 minutes of trade in the stock market keeps stealing the show.

Toward the end of the day, orders often roll in from quant traders, program traders and the like, which can lead, in turn, to big market-on-close imbalances, says trader Ted Weisberg, of Seaport Securities. "It tends to skew the volume dramatically," he added.

Lately, it's resulted in big sell imbalances, traders say. Consider a day like Oct. 9, when the Dow fell almost 460 points in the last hour alone - to 8579.19 points at the close, from 9037.56 points an hour earlier. "The trading gets fueled by programs and gets chased by these algorithms," says **Joseph Saluzzi,** co-head of trading at **Themis Trading**. "It's not rational — these are not normal movements."

Traders at Stamford, Conn.-based Source Trading, a division of Access Securities, decided to crunch intraday numbers on the Dow Jones Industrial Average — and create comparable indexes that tracked complete moves in the Dow, as well as moves in the index in just the first and last hours of trade.

In total, the Dow fell 28% from April 1 through the close on Oct. 17. But the Dow fell 13% when only taking into account the last hour of trade — nearly half its total decline. It fell 5.3% if just the first hour is considered, which makes the 10:30 a.m. to 3:00 p.m. stretch equivalent to naptime.)

"The end of the day is different lately," said Doreen Mogavero, president of floor-brokerage firm Mogavero, Lee & Co. "There are very large price disparities, and a lot of orders coming in close to the bell. The open is still a busy part of the day, but I don't find it disruptive. People are waiting for the end to put in those big orders."