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Stocks Notch Strong Finish After Reeling From Fake Tweet

A short-lived hoax on Twitter briefly erased $200 billion of value from U.S. stock markets on Tuesday, underscoring the vulnerability of financial markets to computerized trading programs that buy and sell shares without human intervention.

A tweet purportedly from the Associated Press just before 1:08 p.m. reported two explosions in the White House and that President Barack Obama had been injured. The posting sent the Dow Jones Industrial Average tumbling roughly 145 points in an instant.

Minutes later, the AP said the tweet was a fake resulting from hacking by an outside group, and the White House confirmed there were no explosions. But traders employing so-called algorithms that automatically buy and sell shares after scanning news feeds—including posts on social media sites such as those run by Twitter Inc. and Facebook Inc.—had already taken action.

The two-minute selling spree left many traders stunned and dismayed, even though the market quickly recovered the losses afterward.

"It's frustrating and scary that a tweet can erase hundreds of billions from the market in a short time, but that's the world we live in," said R.J. Grant, associate director of equity trading at Keefe, Bruyette & Woods.

In a Twitter post, a group identifying itself as the Syrian Electronic Army took responsibility for the fake AP message. The group, which describes itself as "a group of enthusiastic Syrian youths" who support Syrian President Bashar al-Assad, recently has targeted other media organizations. An AP spokesman said the news organization was unable to determine the origin of the hacking incident.

Securities and Exchange Commission officials are looking into trading activity that took place in response to the AP tweet, according to a spokesman, who said the agency routinely looks into irregular market action. Regulators looking into the activity said it was too early to tell if the tweet was intended to disrupt the market. Jenny Shearer, an FBI spokeswoman in Washington, said the bureau is also investigating the incident. She declined to provide further details.

At 1:07:50 p.m. Eastern time, the fake tweet appeared. Stock prices began to head lower in a selloff that quickly picked up steam. In a little more than two minutes, the Dow fell from around 14700 to 14554.

At roughly 1:10 p.m., the first denials began to appear saying that the AP's Twitter account had been hijacked. Within seconds stocks began to turn higher and by 1:13 p.m. had recovered most of the ground that had been lost. At the day's end the Dow was up 152.29 points, or 1.05%, to 14719.46.

In an echo of the May 2010 "flash crash," when the Dow lost 600 points in a matter of minutes, market participants say liquidity—a measure of traders' ability to sell stock positions quickly—dried up while the market was falling.

"It wasn't even that people really had a chance to sell as much as that bids just walked away," said Ian Winer, director of trading at Wedbush
As the hacked post from the AP shows, tweets even move the market. Quentin Fottrell joins The News Hub with a look at some of the more regrettable tweets—and the estimated hefty price tags that came with them. (Photo: Getty Images)

Some said the episode revealed the influence of computer-driven, high-frequency-trading hedge funds, which by some measures account for as much as half of U.S. stock market volume. The computer programs some of them use have expanded their reach to social-media platforms such as Twitter. The Securities and Exchange Commission recently gave the green light to companies to release important information through those venues.

The Syrian Electronic Army recently took responsibility for an attack on National Public Radio, where the words "Syrian Electronic Army Was Here" were splashed across its website earlier in the month. Over the weekend, the website Syrianelectronicarmy.com said the group had hacked into the Twitter feeds of CBS News broadcasts "60 Minutes" and "48 Hours."

A spokesman for NPR said that it was monitoring the situation, and "60 Minutes" tweeted that it was "working with Twitter to resolve."

The AP spokesman said the hack was preceded by an attempt to get into its corporate email network. That original attack was blocked, said the spokesman, who added that "there is no evidence any AP systems beyond email were compromised."

The purposed Twitter feed of the Syrian Electronic Army is linked to the similarly named website, which says its members "could not stay passive towards the massive distortion of facts about the recent uprising in Syria."

The site vows to "remain Syria's loyal soldiers." The group couldn't be reached for comment.

Security experts said the attacks on the AP and other media organizations highlight the need for those operating online to take appropriate precautions.

"We haven't seen anything like this before," said Giovanni Vigna, co-founder and chief technology officer of the security firm Lastline. "They wanted to shock people and draw attention to their cause."

Mr. Vigna said the dramatic reaction on Wall Street was likely linked to the edginess created by the Boston Marathon bombing. He said that it could foreshadow a dangerous future for investors. "Imagine a situation where knowing a tweet of this kind can cause a market to go down," he said. "You buy at a low price, and when the market rebounds, you make a profit."

Amid Tuesday's tumult, some traders emphasized their human advantages. A staffer at Los Angeles-based JonesTrading Institutional Services LLC said during Tuesday's turmoil, over a companywide loudspeaker: "Careful, those things can be hacked," according Tom Carter, a managing director at the brokerage.

"We made sure no one made a call on it, and sure enough, look what happened," Mr. Carter said. "You've really got to be careful in those moments. It would be irresponsible to start calling clients about it."

—Jonathan Cheng, William Launder, Nour Malas, Scott Patterson and Chad Bray contributed to this article.

A version of this article appeared April 24, 2013, on page A1 in the U.S. edition of The Wall Street Journal, with the headline: Twitter Hoax Sparks Swift Stock Swoon.