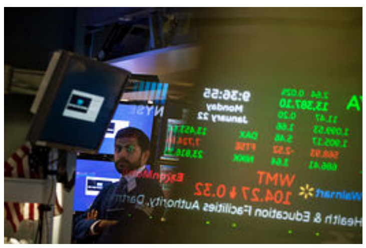
FOCUS ON FUNDS

Machines Raise Worries Amid Market Rout

By Avi Salzman
Updated Feb. 5, 2018 7:15 p.m. ET

Algorithmic trading, exchange-traded funds, robo-advisors. Monday's stock market plunge, which sent the **S&P 500** tumbling 4.1%, is unlike most previous crashes because individual stocks and individual traders are less important than they used to be.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But while it might be comfortable to blame the machines or passive group-think for this one, humans bear some of the blame. It's not apparent that a technical glitch or enormous forced selling caused today's market rout.

Still, machines likely made the highs and lows more dramatic.

"It doesn't feel as if this was qualitative active asset managers significantly reducing their equity exposure," says **Todd Rosenbluth,** Director of ETF & Mutual Fund Research at **CFRA**. "We've seen machines and quantitative efforts help to drive the market higher, and I think it's inevitable that it will impact the market lower. Rules-based strategies will take emotion out of it so when selling happens more selling can occur and when buying happens more buying can occur."

Some "trend-following" strategies that had been long equities may have been forced to shift positions quite suddenly, says **Keith Lerner**, Chief Market Strategist at **SunTrust Private Wealth Management**, helping increase the slide.

"It's just not normal, this action," he says. Trading was "like a rubber-band broke."

Some machines did appear to falter amidst the rout. The websites of robo-advisors Wealthfront and Betterment, which create low-cost automated portfolios based on the preferences of their clients, crashed on Monday, Bloomberg reported. They weren't alone -- T. Rowe Price (TROW) and other big brokers likewise faced website outages during the day, according to *The Wall Street Journal*.

Some strategists have worried that exchange traded funds, whose assets have sextupled since the financial crisis, could cause extra downward pressure on stocks during a selloff because investors in popular ETFs would be selling similar holdings at the same time. But ETFs operated smoothly on Monday, giving investors a chance to trade quickly in and out of a turbulent market, some experts said.

Matt Bartolini, head of SPDR Americas Research at State Street Global Advisors, said in an interview that the SPDR S&P 500 Trust (SPY) had its fifth-highest volume day ever. "ETFs performed their role as market tools for price discovery, allowing investors to make capital allocation decisions in real time based on the market environment."

Another good sign: the end-of-day returns for major ETFs were similar to the net asset values in the ETF, showing there was no dislocation in the market between the value of the assets and where the ETFs were trading, Rosenbluth notes.

"ETFs functioned the way they should," he says.