Pioneer Bank & Trust
Trust & Investments
Local.

704 7th Ave, PO Box 729
Belle Fourche, SD 57717-0729
Phone (605) 892-3494
Fax (605) 892-2115

2001 W Omaha St, PO Box 9189
Rapid City, SD 57709-9189
Phone (605) 341-2265
Fax (605) 341-7425

140 E Jackson Blvd, PO Box 10
Spearfish, SD 57783-0010
Phone (605) 642-2725
Fax (605) 642-1736

September 2015

Ask a trust officer: Circuit breakers

DEAR TRUST OFFICER:

On Monday, August 24, the Dow Jones Industrial Average fell by more than 1,000 points, a record in intraday trading. Why didn't the "circuit breakers" kick in to halt trading?

—BRAKES FOR THE DOWNSIDE

DEAR BRAKES:

In the first place, the "circuit breakers" are no longer triggered by changes in the DJIA; the focus is on the S&P 500-stock index. Trading will be suspended for 15 minutes if this index falls by 7% from the previous session's close before 3:25 p.m. Eastern time. On the date in question, the decline maxed out at a 5.3% drop before prices began rising again, so the market did not come near to a general halt.

For your future reference, after trading resumes, it will be halted again for 15 minutes when the index has dropped 13%. Should the index fall 20% in a single day, trading is halted for the rest of that day.

But in the second place, circuit breakers *did* kick in on August 24. After the 2010 "flash crash," the SEC instituted circuit breakers for individual securities. (See http://www.sec.gov/investor/alerts/circuitbreakers.htm for details.) These individual halts occurred nearly 1,300 times on August 24, according to *The Wall Street Journal*. The trading halts created some cascading difficulties, as some electronically traded funds (EFTs) could not be valued when trading had been halted in some of their underlying securities. In fact, according to the *Journal*'s analysis nearly 80% of the trading halts were for ETFs. Some fine tuning of the system may be needed.

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