MARKET MAYHEM · RESEARCH SHEET · EPISODE 16

The Day the Machines Went Rogue

The Flash Crash of 6 May 2010

United States · 2010 · v1.0 · July 2026

At around 2:45pm on 6 May 2010, the Dow fell nearly 1,000 points in minutes, roughly a trillion dollars gone, some stocks briefly trading for a penny. Then, almost as fast, it recovered. No war, no bankruptcy, just algorithms selling to algorithms in a market with no one left to buy.

Key Facts

Event	The Flash Crash — a near-instant intraday collapse and recovery
Location	United States equity and futures markets
Date & Time	6 May 2010, concentrated in a few minutes around 2:45pm
The Cause	A large automated futures sell order colliding with high-frequency traders withdrawing
The Extremes	Some major stocks briefly traded near $0.01 or up to $100,000
The Legacy	New circuit breakers and “limit up-limit down” rules for individual stocks

By the Numbers

The Dow fell nearly 1,000 points (about 9%) intraday in a matter of minutes

Roughly $1 trillion in market value briefly evaporated

Most of the loss reversed within about the same half hour

Some stocks printed absurd prices, from about a penny to $100,000, before trades were cancelled

Liquidity That Wasn't There

High-frequency traders provide most of the market's moment-to-moment liquidity, but they are under no obligation to. On 6 May, as a large automated sell programme hit an already jittery market, the HFT firms did the rational thing and pulled their quotes to avoid being run over. In seconds, the buyers simply vanished. The order book emptied, and prices fell through the floor, not because of any news, but because the liquidity everyone counted on was never guaranteed.

> ***“ The liquidity you are counting on can disappear in the exact second you need it. ”***

How It Happened

By 2010, a large share of trading was automated, dominated by high-frequency firms whose algorithms buy and sell in microseconds and provide much of the market's visible liquidity.

On an already-nervous afternoon, a large institutional algorithm began selling a big block of S&P 500 futures aggressively, keyed to volume rather than price.

As prices dipped, the high-frequency market-makers, seeing an avalanche, withdrew their quotes rather than catch a falling knife. With the liquidity providers gone, the aggressive selling met an empty order book.

The Collapse

Prices went into free fall. In minutes the Dow dropped nearly 1,000 points; some blue-chip stocks briefly traded for a cent, others spiked toward $100,000, as trades executed against whatever stray orders remained.

Then the process reversed. Automatic pauses tripped, human traders recognised the absurdity, buyers returned to obviously mispriced stocks, and the market rebounded almost as violently as it had fallen. Most of the loss was erased within about half an hour.

Regulators later attributed the event to the interaction of the large sell algorithm and the withdrawal of HFT liquidity, and a trader, Navinder Sarao, was eventually charged with spoofing that contributed to the conditions. The lasting fix was structural: stock-level circuit breakers and limit up-limit down rules.

Timeline

2000s–10	High-frequency trading comes to dominate market liquidity
6 May 2010	A large futures sell algorithm meets withdrawing HFT liquidity
~2:45pm	The Dow falls nearly 1,000 points in minutes; some stocks hit ~$0.01
~3:00pm	Buyers return; the market recovers most of the loss within the half hour
2010	A joint SEC-CFTC report examines the event
2015	Navinder Sarao is charged over spoofing linked to the conditions

Mind · Method · Money — What This Means for You

METHOD · Market structure is a risk in its own right
No fundamental changed in those five minutes; the plumbing did. If your positions can be hit by liquidity vanishing or algorithms cascading, that is a real exposure. Understand how the market you trade actually clears, not just what it is worth.

MONEY · A stop-loss can execute at a price you never imagined
In the Flash Crash, resting stop orders triggered into a vacuum and filled at pennies. Automated exits assume a functioning market on the other side. In a liquidity void, the very order meant to protect you can hand you the worst possible price.

MIND · Speed removes the human pause that once absorbed panic
When decisions happen in microseconds, there is no moment for a person to say “this is absurd” before the damage is done. The faster and more automated a system, the more it needs deliberate circuit breakers, in the market and in your own process.

Modern Parallels

The Flash Crash was the first vivid warning that an automated, high-speed market can dislocate in seconds with no news at all, and it was not the last. Later mini flash crashes in individual stocks, currencies and even bonds echo the same lesson: in a machine-driven market, liquidity is a convenience, not a promise.

Read & Listen

Read the full write-up and listen to the episode: The Flash Crash, 2010 (EP16)

Related Research

Previous episode: EP15 · The 2008 Financial Crisis
Next episode: EP17 · The LME Nickel Squeeze (2022)
The next one forming: The Next Market Crash — 5 Scenarios

Sources & Further Reading

U.S. SEC & CFTC, Findings Regarding the Market Events of May 6, 2010 (2010)
Michael Lewis, Flash Boys: A Wall Street Revolt (2014)
Market Mayhem: When Greed Meets Gravity, The Complete Trader's Edge

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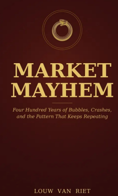

FROM THE BOOK

This crash is dissected in full in **Market Mayhem: When Greed Meets Gravity** — 22 chapters, four centuries of bubbles, one repeating blueprint.

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