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THE FINANCIAL CRISIS; Fear, Greed Whiplash Stocks; Wild Fluctuations In The Dow Cap The Worst Week In Its History. It Ends Down 128 Points.

October 11, 2008 12:00 AM Age: 9 days
BY: LOS ANGELES TIMES
WALTER HAMILTON, TIMES STAFF WRITER

In a fitting end to the worst week on Wall Street since the Great Depression, the stock market underwent a titanic battle between greed and fear Friday as stock prices rallied from two bone-rattling sell-offs only to fade late in the day.

The Dow Jones industrial average closed lower for the eighth straight session, falling 128 points. But the closing number hardly reflected the day's tortuous twists and turns, as the Dow plunged almost 700 points in the harrowing opening minutes of trading.

Prices gyrated wildly throughout the day, and a furious afternoon rally momentarily put the Dow up 300 points -- more than 1,000 points above its low -- before the sell-off resumed. The Dow fell 18.2% for the week, the worst weekly loss in its 112-year history -- surpassing the 17% loss for the week ended July 22, 1933, in the depths of the Depression.

Market analysts said the day's events showed how investors were being driven in two directions. Many are selling for fear of losing even more money they've invested in stocks, but others are buying in hopes they will catch the market at a low and realize big gains.

That helps explain why the market saw strong surges into positive territory Friday, said David Dietze, president and chief investment strategist at Point View Financial Services Inc. in Summit, N.J.

"It's the greed factor kicking in," Dietze said. "It's 'I'm the guy who calls the bottom and won't that make a great story this weekend.' "

So far, however, the fear factor is having a bigger effect. The sell-off over the last month has been driven by increasingly ominous predictions -- that the global financial system was at risk, that the economy could suffer a deep recession and, currently, that the downturns for stock markets around the globe and the economy could linger for years as they did during the Great Depression and the early-1970s oil shock.

"A lot of people are saying they don't want to see how the movie ends," said Stephen Wood, a portfolio strategist at Russell Investments in New York. "When in doubt, get your tail out."

The Dow ended with a loss of 1.5%, at 8,451.19. The Standard & Poor's 500 index declined 10.70 points, or 1.2%, to 899.22. The Nasdaq composite index slid 4.39 points, or 0.3%, to 1,649.51.

The yield on the 10-year Treasury note rose to 3.87% from 3.79% on Thursday. Crude oil fell \$8.89 to \$77.70 a barrel and gold fell \$27.70 to \$855.40 an ounce.

Shares of Wall Street investment bank Morgan Stanley fell 22.3%, their second big decline in two days, as investors worried that the company's credit rating might be cut, further threatening its ability to remain independent.

Although the near-term prospects for the economy and corporate earnings are dim, the wholesale dumping of stocks is being driven by several non-fundamental factors, experts say.

Hedge funds are being forced to unload shares as the investment banks that lent them money to buy the stocks require additional collateral amid their falling value. Hedge funds also are being hit with redemptions from investors.

Individual investors also have been badly shaken. They've yanked \$166 billion from stock mutual funds this year, including \$92 billion since Sept. 1, according to TrimTabs Investment Research.

Although almost no one predicted such a rapid collapse, many small investors tend to blame themselves for their losses, while others are angry at financial advisors who counseled them to hang tight through the weakening market, said Michal Strahilevitz, a business professor at Golden Gate University.

"There's a lot of guilt, there's oozing regret, and within couples or people who rely on financial experts there's also a lot of rage," Strahilevitz said.

At the New York Stock Exchange, brokers are making money with increased trading volume, but their customers are getting creamed.

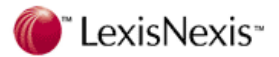
When she goes outside for a break, floor broker Doreen Mogavero removes her NYSE identification badge to avoid being peppered with questions.

"If you go outside for 10 minutes to get some air, people will come up to you and say, 'Oh my God, you work there? What's going on?'" Mogavero said. "There is some sense that the answer lies in this building."

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