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Swaggers turn to shudders a year after market high

By MICHAEL LIEDTKE, AP
posted: 6 DAYS 14 HOURS AGO comments: 181

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SAN FRANCISCO -Just a year ago, investors were swaggering as the stock market surged to an all-time high. Now, almost everyone on Wall Street and Main Street seems to be shuddering amid a frightening reversal of fortune that has erased \$8.3 trillion in shareholder wealth in the past 366 days.

"We aren't dealing with a fundamental economic issue any longer," said James Paulsen, chief investment strategist for Wells Capital Management. "We are dealing with fear. And that doesn't respond to economic medicine."

That hasn't stopped the U.S. government from trying to find a remedy.

In a series of moves aimed at avoiding the mistakes that culminated in the Great Depression nearly 80 years ago, the government already has committed to spend more than \$1 trillion to prop up ailing banks and other lenders during the past month of turmoil.

But none of it seems to be working, which only seems to be scaring people even more, especially after the nation's leaders spent nearly two weeks painting a gloomy picture of the economic outlook to persuade Congress to approve a \$700 billion bailout of the banks.

"I think right now there are just some very powerful negative images that are alive in many people's minds — images of the Depression, images of people selling apples," said George Loewenstein, a behavioral economist at Carnegie Mellon University. "The images of the downside are just so salient in people's minds, and nobody has presented an upside image yet."

Some investors, like software engineer Sandeep Bhanote, are trying their best not to be spooked.

"Fear is the most dangerous emotion. It can really do the market a lot of harm when maybe it is not necessary to be afraid," Bhanote said Thursday at a coffee shop near the New York Stock Exchange.

The quarterly 401(k) statements that are starting to arrive in the mail will only serve as another grim reminder of the financial carnage. And it has gotten worse since the quarter ended in September, with the Dow Jones industrial average tumbling every day so far this month.

In this week alone, the Dow Jones has plummeted by 17 percent, bringing the total decline to 39 percent since the stock market's most famous bellwether peaked at 14,164.53 on Oct. 9 a year ago.

The downturn translates into a paper loss of \$8.3 trillion, based on figures measured by the Dow Jones Wilshire 5000 Composite Index, which tracks 5,000 U.S.-based companies' stocks and represents almost all stocks traded in America.

There are some logical reasons why stocks aren't worth as much as they were a year ago.

For starters, the U.S. economy appears to be in a recession for the first time since 2001. To make matters worse, this contraction looks like it could be particularly painful, with home prices in their steepest slide since the Great Depression and banks in their shakiest condition since the savings-and-loan crisis of the 1980s and early 1990s wiped out thousands of federally insured institutions.

"It's not just psychology," Santa Clara University finance professor Meir Statman said of the stock market sell-off. "There are some things happening in the world that are pretty scary. We have every right to be scared."

And some economic doomsayers still think it could get a lot worse.

"The economy has been in terrible shape for a long time. It was built on an illusion

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NASDAQ	1,717.71	89.38 ↑	5.49%
S&P 500	946.43	38.59 ↑	4.25%
10yr Note	100.25	-0.0625 ↓	0.06%
FTSE 100	3,861.39	-218.20 ↓	5.35%
Nikkei 225	8,579.57	-967.90 ↓	10.14%
Hang Seng	15,230.32	-767.98 ↓	4.80%
Euro (in USD)	1.348	0.0022 ↑	0.16%
Yen (per USD)	101.54	1.67 ↑	1.67%
Oil	70.26	-4.62 ↓	6.17%
Gold	804.50	-34.50 ↓	4.11%

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before this," said Mike Stathis, an investment consultant who wrote a book called "America's Financial Apocalypse." "I think people are starting to recognize what's coming, so why wait around for it to get worse?"

Major mutual fund companies like The Vanguard Group, Fidelity Investments and T. Rowe Price all reported sharp increases in phone calls this week as some individual investors bailed out of the market and others sought words of reassurance.

"It's consistent with the climate we're in. Obviously in times of significant market volatility, investors are interested in our thoughts about what they should be doing," Fidelity spokesman Vin Loporchio said. "We try to reinforce our message about long-term investing."

Paulsen said he believes the U.S. government has sounded even more alarms by announcing one different approach to the financial crisis after another in recent weeks.

"It made them seem scared and it made them seem like they didn't know what they were doing," he said. "I think we have reached a point where the Treasury and the Federal Reserve have to just stop and send out this message: 'We have done enough and we think it's going to work.'"

When the government first announced its \$700 billion proposal to buy back money-losing mortgages from banks on Sept. 19, the stock market surged. Since then, the Dow Jones has plummeted 25 percent.

Until they get some credible words of reassurance, investors are likely to be on edge — much like a soldier suffering from post-traumatic stress, said Michal Ann Strahilevitz, a marketing professor at Golden Gate University in San Francisco who studies investor psychology.

"We've been so traumatized over the past few weeks that every little thing that happens, we overreact," she said.

With more gloom seemingly around every corner, investors run the risk of pulling their money out of stocks just when the market may be poised to bounce back. The 39 percent decline from the Dow Jones' high already exceeds the drop experienced in the typical bear market, suggesting it may be not much longer before the sell-off bottoms out.

When investors act purely on emotion, there is greater chance of them sabotaging their financial goals, said Stuart Ritter, a certified financial planner at T. Rowe Price.

"The opposite side of irrational exuberance is irrational pessimism, and neither one is a good path to your financial goals," Ritter said.

John Dorfman, portfolio manager of the Dorfman Value Fund, is preparing for a rally after the United States picks its next president in the Nov. 4 election. "I see a lot of bargains out there," Dorfman said.

Even the generally pessimistic Stathis hasn't given up all hope. As more investors fled the market late Thursday, he bought 900 shares of Pfizer Inc.

—

AP Business Writers Dave Carpenter in Chicago, Candice Choi in New York, Mark Jewell in Boston and David Pitt in Des Moines, Iowa and AP Writer Colleen Long in New York contributed to this story.

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No Icon Georgethomasob 11:47:37 AM Oct 10 2008 Report This! The New Deal was destroyed. at the time Regan was elected. Then, it was obvious the regulations and laws of the New Deal needed upgraading. Regan, with the blessing of the electorate, chose to eliminate many of the safeguards of the New Deal legislation. The result: Short term phony economic gains coupled with long term significant problems. The stupidity of George Bush's international agenda coupled with Mr. Bush's stupid economic beliefs were the straws that broke the camel's back.....

Jchan412 11:41:58 AM Oct 10 2008 Report This! There will be a bright side to all of this. Stock prices, like real estate prices and oil/commodity prices, which were over-valued for the past several years, will now be pushed by panic, down to prices that are actually under-valued. The emotion of fear is making the whole thing swing the opposite way. When the downward momentum ceases in a week or so, it will be a perfect time to make

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some purchases of underpriced stock. These under-valued stocks will likely bounce back quickly, once confidence is restored. For the past few years, the markets have over-reacted in both directions. The best thing to do is to try to take advantage of it. Don't worry...the world is not ending.



TortugaTommy 11:22:20 AM Oct 10 2008 [Report This!](#)

"If the American people ever allow private banks to control the issuance of their currencies, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all their prosperity until their children will wake up homeless on the continent their fathers conquered." - Thomas Jefferson. The Federal Reserve is a privately owned, for profit corporation. Thomas Jefferson and many other brilliant men warned against a central banking system. Read the book, The Creature from Jekyll Island, by G. Edward Griffin. After you read the horror stories in the book regarding central banking and the Federal Reserve, you will understand the who, how, why, what, when and where of our current and past financial disasters. It's all planned out to rob us, the american public.



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BARNEY FRANK SHOULD BE IN JAIL.....



DAYS7 10:33:36 AM Oct 10 2008 [Report This!](#)

One of the advantages of have watched or been involved in 10 presidential elections is that I have seen a pattern. The candidate who is the most successful in demonizing the other candidate wins the election. Meanwhile, Republicans and Democrats, are both destroying the country. Would you prefer: to be in a car about to hit a brick wall traveling at 130mph? then vote Obama or would you prefer to be in a car about to hit a brick wall traveling at 110 mph? then vote McCain. All of our representatives in DC should be tired for treason and hung.



Mccmar45 10:22:42 AM Oct 10 2008 [Report This!](#)

STOP the partisan crap and lets PULL together as americans - we all at risk whether were dem or rep - ENOUGH ALREADY



HBSSL 10:03:11 AM Oct 10 2008 [Report This!](#)

these people could bring america down, we bail these pricks out and then they won't want to loan any of our own money to the people that gave it to them. this is a bad deal. let them go under.



TortugaTommy 09:02:19 AM Oct 10 2008 [Report This!](#)

"If the America people ever allow private banks to control the issuance of their currencies, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all their prosperity until their children will wake up homeless on the continent their fathers conquered." - Thomas Jefferson. The Federal Reserve is a privately owned, for profit corporation. Thomas Jefferson and many other brilliant men warned against a central banking system. Read the book, The Creature from Jekyll Island, by G. Edward Griffin. After you read the horror stories in the book regarding central banking and the Federal Reserve, you will understand the who, how, why, what, when and where of our current and past financial disasters. It's all planned out to rob us, the american public.



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To: LB Wilder54 You are obviously a rabid RACIST and a typical STUPID REPUBLICAN to boot. Do you believe that you can alter the opinion of anyone with a smidgen of intelligence by your pathetic rant? Just get out of your trailer and try to find a job, maybe shovelling shit because that is where people with your intelligence end up.



DVRMDC 08:43:08 AM Oct 10 2008 [Report This!](#)

LBWilder54 08:40:57 AM Oct 10 2008 [Report This!](#) If you vote for Obama, just remember that you may be risking your children and your grandchildren's future. ----- Too late, Bush and the rest of those musical comedy characters in washington have already seen to that.

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