

Home > Business

# Swaggers turn to shudders a year after market high

Print Email

By MICHAEL LIEDTKE AP Business Writer

Article Last Updated: 10/10/2008 09:21:19 AM MDT

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-

Trader Joseph Acquafredda, right, works on the floor of the New York Stock Exchange, Friday Oct. 10, 2008.

### RELATED

- Oct 19:
  - Bush: Summit to modernize world finance
- Oct 16:
  - Paulson regrets mistakes that led to meltdown
  - Gloomy reports sink Dow
- Oct 15:
  - Stocks plunge anew as data points to recession
  - Retail sales plunge 1.2 percent in September
- Oct 14:
  - Oil falls to below \$78 on recession fears
- Oct 15:
  - Evidence mounting of long, painful recession
  - Banks buying into bailout
- Oct 14:
  - Stocks pull back as profit-taking sets in
  - Bush announces billions for banks
  - The crashes and the comebacks
  - 5 ways to handle your money
  - Turnaround or trap?
  - Banks to get billions
- Oct 13:
  - Feds assure buyer in Morgan Stanley
  - Propping markets on global agenda
  - Historic rally on Wall Street
- Oct 12:
  - Congress likely to return after election

MOST READ MOST COMMENTS MOST EMAILED

### MOST-COMMENTED: BUSINESS: PAST 144 HOURS

- Evidence mounting of long, painful recession 34
- Bush announces billions for banks 20
- Business a bummer for Joe the plumber 14
- Xcel: November heating bills to rise 7 to 8 percent 10
- Business coalition opposing 47, 49 and 54 7

### MOST COMMENTED

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 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.

- to work on economy
- All those losses? Not truly money . . .
- Leaders urge global unity on economy
- Discount holds on Lehman sales
- GE meets its diminished expectations
- Feds OK Wells Fargo buyout of Wachovia
- Crude-oil price dips to half its record high

Oct 10:

- Meltdown 101: Bankruptcy won't help borrowers much
- Stocks got slammed, but was it a 'crash'?
- Paulson endorses bank stock purchase plan
- Developing nations worried about financial crisis
- Bush says financial rescue plan big enough to work
- Stocks end worst week mixed after wild session
- Stocks end wild session mixed after 8-day slide
- Accelerating wreck

Oct 9:

- Dow dives 679 points
- U.S. may take bank stakes
- Treasury's bailout may add a buy-in
- Fed to expand AIG bailout with extra \$37.8 billion loan
- Talks on Wachovia granted more time
- Engineer's new focus: bailout
- Time to just grimace and bear it
- Treasury chief warns of "significant challenges"
- Global rate cuts can't steady Dow
- Your money: what the gurus say

Oct 8:

- Stock market seeks stability
- Banks' insurance premiums raised
- Bush tells America: Hang in there
- Asian markets dive
- Russia pumps money into system
- Gears of the economy
- Banks' insurance premiums raised
- Dow slide deepens as Fed ups ante

Oct 7:

- Bernanke: Outlook for growth has worsened
- Stocks tumble as Street worries about financials
- Global sell-off amid fears
- Raise cash but don't panic, financial advisers suggest

Oct 3:

- Wells Fargo agrees to buy Wachovia; Citi objects
- Tax breaks big and small sweeten financial bailout
- Bush signs \$700 billion bailout bill
- Text of President Bush's speech
- Bush signs bailout bill
- Historic bailout bill passes Congress,

Bush signs

- Two who voted "no" swing to undecided
- Education lender Sallie Mae reassures shareholders
- Banks' Fed loans a record
- Bailout may help few keep homes
- Credit markets stay uptight
- European bank lets rates stand
- Merrill CEO to take new job at B of A
- Oil falls on bailout doubts
- Wall Street falls back
- Converts jump aboard bailout plan
- Add-ons aim to sweeten bill for House Republicans

Oct 2:

- Delegation deluged with calls
- Sen. Salazar votes for "necessary pill"; Allard says no
- Factory activity hits lowest level since 9/11 attacks
- Loan rates, T-bill demand remain high
- Oil prices slip below \$100
- Troubled mutual fund plans to pay investors
- Wachovia plans to liquidate fund used by 900 colleges
- O'Neill: "Is anybody thinking there?"
- Economic concerns in Colorado
- House girds for 2nd try on financial rescue

Oct 1:

- Bailout passes Senate, House foes soften
- Wall Street flavors burgers
- Bad quarter isn't worst
- 485 points of relief for stock market
- Credit tightness persists
- Pelosi's defeat on Monday shows limits of her might
- Colorado lawmakers share in market's meltdown
- AIG sells London airport stake
- SEC opposed to rule suspension
- Citigroup committed to acquiring Wachovia
- Oil back above \$100
- A bailout by any other name may be sweeter
- Foreclosures and the economy
- Senate steps forward to resuscitate rescue

Sep 30:

- Bailout revival sought, with better deposit safety
- Stocks surge higher; credit worries persist

Sep 29:

- 'Is my money safe?' And other questions worth asking

Sep 30:

- Most Colorado banks sound
- Defeat shows paralysis of political leadership

- Analysis: House's center couldn't hold
- Leaders seek new deal
- S&L debacle holds lessons for new crisis
- Record-smashing fall
- Citigroup to pay \$2.1 billion for bank division at ailing Wachovia
- CU profs certain bailout is coming
- Recession in housing may deepen
- Plunge a "message to Main Street"
- Bank upheaval may yield rising fees
- Most Colorado banks sound

Sep 29:

- Obama rips failed D.C. policy
- U.S., foreign banks ease credit
- Chase purchase of WaMu still on
- Bush backing rescue after years of touting free markets
- Bailout vote creates odd splits in Colo. delegation
- Bailout defeated in House; stocks plunge
- Presidential candidates reluctantly embrace package
- Uncertainty hangs over hedge funds
- Colo. leaders laud plan cautiously
- Little something for all sides
- Restoring credit flow to Main St. top priority

Sep 28:

- Financial rescue package details
- Visible hand guides new "capitalism"
- Tangle of risky deals toppled insurance giant AIG
- Candidates make calls to keep tabs on deal
- Lawmakers get creative in describing financial situation
- Demand for American Buffalo coin spikes; Mint halts sales
- Anger at CEO pay resurfaces
- Near-retirees face extra financial concerns
- Japanese banks feasting on Wall Street casualties
- Seeing Red over "rescue"
- Stocks end week down on bailout fight, WaMu failure

Sep 27:

- White House, Congress push for bailout deal

Sep 26:

- Frank predicts bailout agreement by Sunday
- Colorado hopefuls debating bailout
- Pork abounds in spending bill
- Bush blames everyone but the watchdogs
- AIG shows annuities aren't fail-safe
- Bailout? Jeff M. Wilson: No
- Bailout? Tucker Hart Adams: Yes
- Banks dip deeper into emergency lending fund
- Price of oil is up, gold is down

- Former AIG chief might sell shares
- GOP rebellion stalls bailout
- Collapse of WaMu the worst in U.S.

Sep 24:

- Bailout plan a tough sell

Sep 25:

- Doubts on bailout keep Street tense
- Skepticism of bailout rising
- Bailout may not be enough
- Coloradans react to bailout
- Despite bailout agreement, McCain still won't commit to debate
- Bailout deal breaks down; talks to resume Friday
- Bailout deal breaks down; talks to resume Friday
- Financial markets: Fresh signs of recovery or just opportunism?
- Amid GOP revolt, bailout deal breaks down

Sep 23:

- Dire warnings fail to sway senators on big bailout
- Details of bailout proposals from Bush, Congress
- SEC chief Cox urges regulation of debt insurance
- Paulson sees different ways to price bad debts
- Quotes from hearing on financial crisis
- Descriptions of bailout plan
- FBI investigating companies at heart of meltdown
- Bernanke: Recession certain without bailout
- Stocks extend fall as Street weighs bailout plan
- McCain says proposed bailout "has no oversight"
- Obama wants spending-efficiency monitor
- Mortgage burden strains millions
- Buyers bail out workers as well as Lehman
- \$700 billion questions
- Bernanke, Paulson urge bailouts

Sep 19:

- Stress threatens Main Street

Sep 17:

- Fed staying firm on rates
- Insurer thrown lifeloan by Fed

Sep 16:

- Fed's no-change decision could be followed by cuts
- Financial tempest's toll on average Americans

[Print](#) [Email](#) [Return to Top](#)  
Like this story? Buzz it up on

ARTICLE COMMENTS

[Login](#) | [Sign Up](#) | [Email Support](#)

You must be registered to comment (your comment will be saved for you while you register). It's quick (it takes about 30 seconds) and we only require your email and name. Comments that include any offensive material are prohibited. By using our site you agree to our terms of use.

You have javascript turned off. To comment on this article from the article page, javascript must be turned on. Alternately, you can search for this topic thread in our forums.

POST COMMENT

#### MORE BUSINESS HEADLINES

- Baiting the desperate
- McCain, Obama spar over tax issues
- Economy deflates renewable fuel plans
- Economics 'n things sink retailer
- Bipartisan opposition targets Amend. 50
- Affordable home, care of the company
- It's a global predicament that will require a global solution
- Debt + no savings + spending halt = 1929
- Buffett not afraid to bet on U.S. companies
- Despite wild swings, stock market ends the week up
- Senator optimistic about economy
- Buffett: I'm buying U.S. stocks
- Lessons from the crisis
- Campaign giving by financial industry
- Auto-merger talks stoke anxiety
- Avoiding pre-employment traps
- Interview: Jim Koch
- Consumer Shopping Bag
- Subsidized housing
- Trillion-dollar question: How we'll pay for this
- It will take years and trillions to clear this mess
- Losses from a small number of defaults exceeded banks' capital base
- Oil change may reverse fortune of Southwest Airlines
- Xcel: November heating bills to rise 7 to 8 percent
- Business a bummer for Joe the plumber

#### DENVER & THE WEST

[Aurora](#) | [Boulder](#) | [Denver](#) | [RSS](#)

- [Powell explains endorsement of Obama](#)
- [Motorcyclist killed in Jeffco accident](#)
- [Hiker missing in Larimer County](#)

#### SPORTS

[Broncos](#) | [Rockies](#) | [Preps](#) | [RSS](#)

- [Hawkins uncertain about starting QB](#)
- [Budaj to start against Kings](#)
- [Switch of QBs works wonders](#)

#### BUSINESS

[Al Lewis](#) | [Tech](#) | [RSS](#)

- [Lessons from the crisis](#)
- [Baiting the desperate](#)
- [Campaign giving by financial industry](#)

#### ENTERTAINMENT

[Husted](#) | [Movies](#) | [Music](#) | [TV](#) | [RSS](#)

- [Relatively unknown pianist is making a grand name for self](#)
- [A new center for art, a new sort of arts philanthropy](#)
- [Reconsidering Walt Kuhn's Western visions](#)

#### OPINION

[Columnists](#) | [Letters](#) | [Cartoon](#) | [RSS](#)

- [Editorial: Barack Obama for president](#)
- [Chuck Plunkett: A dissenting voice](#)
- [Dan Haley: How we decided](#)

#### WATERCOOLER

[Arcade](#) | [Crossword](#) | [Sudoku](#)

- [Suspect in golf cart eludes Utah sheriff cruisers](#)
- [Police arrest Mich. man for car wash vacuum sex](#)
- [Wallet missing for 6 decades returned to family](#)

#### SPONSORED LINKS

[Printer & Printer Supplies](#)  
[Shopping Cart Software](#)  
[Denver Real Estate](#)  
[Find Electronic Components](#)

[Personal - Injury - Lawyer](#)  
[Cadillac](#)  
[Reverse Osmosis](#)  
[Donate Car](#)  
[Yellow Pages](#)

[Cabin Kits & Building Cabins](#)  
[Compare Prices](#)  
[Internet Marketing Firm](#)  
[Credit Card Consolidation](#)  
[Denver Web Design](#)  
[Denver Advertising Agency](#)

All contents Copyright 2008 The Denver Post or other copyright holders. All rights reserved.  
This material may not be published, broadcast, rewritten or redistributed for any commercial purpose.

[Advertise](#) | [Archives](#) | [Contact Us](#) | [Ethics Policy](#) | [E-mail Alerts](#) | [Mobile](#) | [Privacy Policy](#) | [Web Feeds](#) | [RSS](#) | [My Yahoo](#) | [Site Map](#) | [Home Delivery](#) | [Viva](#) | [Terms of Use](#)

[Privacy Policy](#) | [MNG Corporate Site Map](#) | [Copyright](#)