

Page 2 of 2 [Back](#)

Swagger turns to shudder a year after market high

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Originally published 01:06 a.m., October 10, 2008, updated 12:49 a.m., October 10, 2008

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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 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.

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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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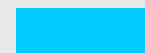
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