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SUSAN TOMPOR

Where's end to market plunge?

BY SUSAN TOMPOR • FREE PRESS COLUMNIST • SEPTEMBER 18, 2008

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No one, it would appear, has found the right antianxiety medication to cure the ills on Wall Street.

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One day after news of an \$85-billion bailout for American International Group Inc., the Dow took investors on yet one more neurotic ride. The Dow Jones Industrial Average lost 449.36 points, down 4.06%, to close at 10,609.66 on Wednesday.

"Folks are asking the question: 'Who's next?' " said Alan Skrainka, chief market strategist for Edward Jones in St. Louis.

The financial system remains in crisis mode, even though Wall Street felt calmer late Tuesday afternoon on rumors about the government-backed deal to save AIG, one of the world's biggest insurers.

Amiyatosh Purnanandam, an assistant professor of finance at the Ross School of Business at the University of Michigan, said the bailout does offer more stability for the financial system.

Yet, the deal alone won't put an end to the financial crisis -- or give a clearer picture of when the financial system and credit markets will regain their footing.

If an insurance company had exposure to so much risk, the fear is: Who else might need a bailout or go under?

"You don't really know how bad it's going to get," Purnanandam said.

"Nobody has a clue."

When Wall Street doesn't have a clue, it speculates.

Wall Street focused on the troubles in the credit markets and concerns that bank lending had seized up. Morgan Stanley was down about 26% at the market close Wednesday;



Video by ALEXANDRA BAHOU/DFP - Fritz Henderson, GM's president and chief operating officer, reflects on the credit...

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RICHARD DREW/Associated Press

Wednesday was a tough day for Christopher Crotty and other traders on Wall Street. Anxieties about the financial crisis ran high even after the bailout of AIG.

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Goldman Sachs Group was down about 14%. Washington Mutual Inc. was down more than 13%.

"The market just keeps demanding more heads," said Don Phillips, managing director for Morningstar Inc.

Cut spending, save and stay calm

Unfortunately, individual investors feel like their college and retirement funds are on the chopping block, too.

Ken Goldstein, an economist at the Conference Board in New York, warned that investors should be aware that the latest financial troubles will take time to unwind.

"This is absolutely not going to be over by Christmas," Goldstein said.

His advice: Understand the economic challenges, trim budgets where you can, keep investing for retirement and try to remain calm.

"For most of us, the other piece of advice is: Don't quit your day job," Goldstein said.

Purnanandam said some investors may want to "go defensive" and invest more money in government bonds.

Skrainka suggested that people not put all their money into cash.

"Investing is not as easy as buying when you feel good and selling when you feel bad," Skrainka said.

Market was declining before this

We're all shocked when we see such dramatic losses in one week on Wall Street -- and the week isn't over yet.

About \$4.4 trillion of market value has been erased from global stocks so far this week.

The market began melting Monday after the largest-ever bankruptcy filing by Lehman Brothers Holdings Inc., once the fourth-largest U.S. securities firm.

However, some experts suggest that it's important to recognize that the stock market has been in a decline for nearly a year.

The Dow has fallen 3,554.87 points since Oct. 9, 2007. The blue chip index is down 25% in less than a year.

The Standard & Poor's 500 index lost 26% since last October's record level -- erasing half its gain from the 5-year bull market that began in 2002.

It's not the end of the world

David Sowerby, portfolio manager for Loomis, Sayles & Co. in Bloomfield Hills, said that investors might want to consider that the stock market falls about 27% in the average bear market, which lasts about 240 days.

Will this downturn be average?

"It could turn out to be slightly worse than average," Sowerby said.

But he does not believe it will be as bad as the tech stock implosion earlier this decade or the 1973-74 bear market. During those bear markets, the stock market was down more than

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HOW TO COPE WITH HIGH-FINANCE ANXIETY

• Worried about an annuity with AIG?

Financial experts say individuals do not need to be concerned. Consumers who have a policy with an AIG insurance company are being told that these subsidiaries are solvent and have the capability to pay claims. See www.naic.org for information from the National Association of Insurance Commissioners.

In Michigan, if you have questions, contact the Office of Financial and Insurance Regulation at 877-999-6442.

• Worried about still being able to get high dividends from financial stocks?

Do not bet on getting them now. The dividend could be cut or eliminated from a bank stock or financial stock. Cutting dividends to common shareholders is one way that financial institutions are coping with the latest fallout, according to Mark W. Riepe, senior vice president for the Schwab Center for Financial Research.

• Worried about your brokerage firm closing?

In virtually all cases, customer assets are safe and typically are transferred to another registered brokerage firm, according to the Financial Industry Regulatory Authority.

Registered brokerage firms must keep their customers' securities and cash segregated from their own so that, even if a firm fails, its customers' assets will be safe.

If you hear your firm is in trouble, call the firm to see what you must do. For example, there may be a window of time when you cannot trade or transfer your account.

Susan Tompor

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40% each time.

"You can only bet on one Armageddon," Sowerby said, "And I very highly suspect this is not it."

Contact **SUSAN TOMPOR** at 313-222-8876 or stompor@freepress.com.

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- Pistons
- Red Wings
- Tigers
- U-M Wolverines
- MSU Spartans
- High School
- Sports
- Scores
- Columnists
- Shock
- Outdoors
- Olympics sports
- Golf
- Auto racing
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- Celebrities
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- Video games
- Metromix.com
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