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Market Reacts With Control

By Jo-Ann Johnston

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TAMPA - By any other standard, Monday could be considered one of the worst days in the history of Wall Street. And people would be dreading today's round of trading.

Instead, investors are ready to go back at it.

They're relieved Monday's Wall Street numbers weren't even worse. Given the economic shock created by last week's attack on New York and Washington, Monday's 7.1 percent plunge in the Dow Jones industrial average seemed proportional, appropriate.

In record volume selling, the Dow Jones industrials slumped 684.81 points, its biggest one-day drop. It sank below 9,000 for the first time in more than 2 1/2 years.

The other major exchanges also stumbled: The Nasdaq composite index fell 115.82, or 6.8 percent, to 1,579.55. The Standard & Poor's 500 index, the broadest measure of Wall Street, declined 53.77, or 4.9 percent, to 1,038.77. Overseas markets were mixed.

Airline, travel, insurance and entertainment company stocks spiraled down while the rest of the market merely dropped. But that made sense.

The loss of lives, planes and buildings means insurance companies face billions in claims. With its fleet grounded, the airline industry lost an estimated \$1 billion in just the past week.

And if people don't feel safe traveling, then they aren't likely to book hotel rooms, visit tourist attractions and vacation. So those stocks plunged, too.

Investors factored all that in.

"The market was more rational than it was panicked," said Robert C. Allsbrook, chief economist for AmSouth Bank in Birmingham, Ala.

"Let's start with the fact that the New York Stock Exchange, the American Stock Exchange and Nasdaq all worked," said **John Hill**, managing director of **Hyde Park Capital Partners**, a Tampa investment banking firm.

"That they did business at all is a great credit to the people involved," he said.

Hill also put the loss in perspective: "There's a huge difference between a 20 percent decline and a 7 percent decline."

Many credit the Federal Reserve with helping to contain the damage.

In a special telephone conference early Monday before the stock market opened, it cut interest rates by another half- point. The cut, the eighth in a year, put the federal funds rate at 3 percent. That's the rate banks charge each other.

That led major banks to immediately cut their prime rates to 6 percent. The prime is the rate banks use to set many loans to consumers and businesses.

Fighting Off Recession The carefully timed move was a clear sign policy-makers are paying attention to an economy that may have been tilted into a recession by the attacks.

Some economists say the Fed might cut interest rates more, to 2 percent, in the coming weeks.

The interest rate reduction followed a subtler, equally important move by the Fed last week.

It said it would expand the world's cash supply and pump it into banks and the economy, assuring businesses and customers there wouldn't be any runs at the teller windows.

The Fed also made sure America's allies were there to help with rate cuts of their own.

The European Central Bank matched the Fed's rate cut, saying it was acting in coordination with the Fed to limit the worldwide economic damage stemming from the attacks. Central banks in Canada, Switzerland and Sweden also cut rates Monday.

It also didn't hurt Monday's stock trading that some big companies, including Cisco and Starbucks, said they would buy back shares of their own companies.

Or that mutual funds were given special permission to borrow money from corporate parents to buy shares. Mutual funds, which hold massive numbers of stocks for small investors, didn't sell as heavily as they might have, which helped limit the damage.

Individual investors appear to have sat this out quietly.

Fidelity Investments fielded a high volume of calls from individual investor clients, but more people were asking questions about their account than were selling, according to a spokesman.

Similarly, there was little selling by individual clients who use the First Union Securities downtown Tampa office, said branch manager Joseph Valenti.

Some T. Rowe Price customers were selling riskier equity funds and moving into safer, more predictable bond funds. But others wanted to "buy to show their support, they see it as their patriotic duty," said a spokesman.

Still, there were more shares sold Monday than purchased.

Looking Ahead In the next couple of days, the hope is that buyers will step in to purchase stocks beaten down to bargain prices. But the overall picture will still be volatile.

"I expect another day of really rocky stuff, then I expect it's just going to flat-line," said Henry J. Herrmann, president and chief investment officer of Kansas-based Waddell & Reed Financial Inc.

The possibility of more attacks on the United States and the probability of a military response to the attacks on the World Trade Center and Pentagon will cloud the financial future, Hill said.

But market observers are going with what they know now, and appear heartened. Just don't bank on a quick turnaround in the market.

"I think we've got a long, patient wait ahead," said AmSouth economist Allsbrook.