

Dow drops 318 points on fears of slower growth

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Rise and shine, investors. Dream time is over - at least this week.

The Dow Jones Industrial average gave up 318 points Friday and nearly 500 points in the last two days. The jolting wake-up call arrived amid news that China's economy was slowing down.

Maybe it was a bump in the road of an otherwise rosy five-year runup in the stock market. In the eyes of one prominent Tulsa money manager, maybe it was the inevitable backlash when traders and investors stray too far from the fundamental principles of the marketplace.

"It just shows you many investors do not view buying companies as a business but as speculation," said Fred Russell, principal of Fredric E. Russell Investment Management Co. in Tulsa. "Emotions overrule logic."

The Dow Jones industrial average dropped nearly 2 percent to close at 15,879 Friday, its worst drop since last June.

The Dow is down as investors pull out of stocks and emerging markets and stash money in safer assets like bonds.

The Standard & Poor's 500 index fell 38 points, or 2.1 percent, to 1,790. The Nasdaq composite fell 90 points, or 2.2 percent, to 4,128.

Small-company stocks fell even more than the rest of the market as investors shunned risk. The Russell 2000 plunged 28 points, or 2.4 percent, to 1,144.

Some blamed it on the Chinese slowdown, noting that the U.S. economy is tethered to trade from that part of the world. But another part of this major correction could be that, as Russell put it, investor sentiment can be as volatile as stock prices.

Many investing in the stock market have shown what he called an "unqualified bullishness" excited about high-profile, but relatively non-revenue-generating companies such as Twitter.

"It's easy for them to be vulnerable for surrender to emotion when they haven't researched the basic nature of these companies," Russell added. When valuations rise for companies such as Twitter and other companies which don't make any money ... you have to know something is very, very wrong.

"This is not mature investing," he said. "This is buying something because it's exciting."

Those magical thoughts came to an end this week, Russell noted.

U.S. stocks have not endured a correction a drop of 10 percent or more over time since October 2011.

In Asia Friday, Japan's Nikkei 225 slipped 1.9 percent to close at 15,391.56; Hong Kong's Hang Seng shed 1.2 percent to 22,450.06; and Seoul's Kospi dropped 0.4 percent to 1,940.56.

The turbulence coincides with a global economic shift: China and other emerging market economies appear to be running into trouble just as the developed economies of the United States and Europe finally show signs of renewed strength nearly five years after the end of the Great Recession.

The trouble began Thursday after a January survey showed a drop in Chinese manufacturing activity. Days earlier, China reported that its economic growth last year matched 2012 for the slowest pace since 1999.

"It is interesting how even a mild tremor in China's growth causes such anxiety around the world," said Eswar Prasad, professor of trade policy at Cornell University.

Slower growth in China is bad news for countries that supply oil, iron ore and other raw materials to the world's second-biggest economy. Some of those countries, such as Indonesia and South Africa, were already struggling with an outflow of capital as rising U.S. interest rates drew investors to the United States.

Since the global financial crisis hit in 2008, the Federal Reserve has flooded markets with cash to push interest rates lower and encourage U.S. businesses and consumers to borrow and spend. But last month, as signs of growing economic strength emerged in the U.S., the Fed cut back — reducing its monthly bond purchases to \$75 billion from \$85 billion. It also said that it expected to reduce the bond-buying further "in measured steps" at upcoming meetings.

The Fed meets again next Tuesday and Wednesday. Many economists expect the central bank to cut the purchases again.

The scaling back of the Fed's easy money policies has hit some emerging markets hard. When the Fed was pushing U.S. rates lower, emerging markets had seen an inflow of capital from investors seeking higher returns than they could get in the United States. Now investment is flowing back to America, hammering currencies in emerging markets.

Russell hopes and believes this pullback will force investors to focus on the fundamentals again.

"What I see is some discrimination occurring in the market," he said. "Investors who've been asleep and complacent are going to discriminate between companies which actually make money and those who don't."

"This is a reminder that you're not going to make money in the stock market by following fads," Russell added. "You have to ... do some basic grunt work."

World Business Editor Rod Walton and the Associated Press contributed to this report.