

Stocks plunge after Fed hints easing of stimulus program

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For investors, there was no place to go on Thursday.

A day after the Federal Reserve roiled Wall Street when it said it could reduce its aggressive economic stimulus program later this year, financial markets around the world plunged. A slowdown in Chinese manufacturing and reports of a squeeze in that economy - the world's second-biggest - heightened worries.

The global sell-off began in Asia and quickly spread to Europe and then the U.S., where the Dow Jones industrial average fell 353 points, wiping out six weeks of gains.

But the damage wasn't just in stocks. Bond prices fell, and the yield on the benchmark 10-year note rose to 2.42 percent, its highest level since August 2011, although still low by historical standards. Oil and gold also slid.

"People are worried about higher interest rates," said Robert Pavlik, chief market strategist at Banyan Partners. "Higher rates have the ability to cut across all sectors of the economy."

The question now is whether the markets' moves on Thursday were an overreaction or a sign of volatility to come. What is becoming clearer is that traders and investors are looking for a new equilibrium after a period of ultra-low rates, due to the Fed's bond-buying, which spawned one of the great bull markets of all time.

It doesn't mean the stock run-up is over. After all, the Standard & Poor's 500 index is still up 11.4 percent for the year and 135 percent since a Great Recession low in March 2009. But it may suggest the start of a new phase in which the fortunes of the stock market are tied more closely to the fundamentals of the economy.

And that might not be a bad thing. The reason the Fed is pulling back on the bond-buying is because its forecast for the economy is getting brighter. The job market is improving, corporations are making record profits and the housing market is recovering.

"People are overreacting a little bit," said Gene Goldman, head of research at Cetera Financial Group.

Some Tulsa money managers said investors should not get spooked by the events of the past two days.

"Keep your powder dry and stay the course" was the advice of James K. "Skip" Nichols, president of Financial Planning Resources Inc.

A move toward higher rates was inevitable, Nichols said in a telephone interview. The economy has been improving steadily and likely still has a lot of growth ahead, he said.

In fact, the market may have outpaced the nation in the past seven months or so, Nichols said. In April, he recommended that clients with large portfolio gains sell some stocks.

"We generally do not try to 'time' the market, or jump in and out. But we had some accounts that were up 15 percent to 20 percent," Nichols said.

Now, though, after such a big drop people generally should remain invested in the market, he said.

Fred Russell, principal of Fredric E. Russell Investment Management Co. in Tulsa, said the steep two-day sell-off has created opportunities.

"I'm going to get up early Friday and look for some stocks to buy," Russell said.

The money manager said he will search for attractively priced companies that can withstand higher interest rates and which will benefit from global economic growth.

The key to making money in stocks, Russell said, is to put together a portfolio that will produce gains over a five- to seven-year period. During that time, investors need to do their best to be patient.

"A big one- or two-day decline like we've just had will force you to see if you have the stomach for common-stock investing," Russell said. "Volatility is part of the game. If you stay in for the long term, however, history says you likely will be rewarded."

The Dow's drop Thursday - which knocked the average down 2.3 percent to 14,758.32 - was its biggest since November 2011. It comes three weeks after the blue-chip index reached an all-time high of 15,409. The index has lost 560 points in the past two days, wiping out its gains from May and June

The S&P 500 lost 40.74 points, or 2.5 percent, to 1,588.19. It also reached a record high last month, peaking at 1,669.

Small-company stocks fell more than the rest of the market Thursday, a sign that investors are aggressively reducing risk. The Russell 2000 index, which includes such stocks, slumped 25.98 points, or 2.6 percent, to 960.52. The index closed at a record high of 999.99 points Tuesday.

The yield on the 10-year Treasury note rose to 2.42 percent, from 2.35 percent Wednesday. The yield, which rises as the price of the note falls, surged 0.16 percentage point Wednesday after the Fed's comments. It's up sharply since May 3, when it hit a year low of 1.63 percent.

A Fed policy statement and comments from Chairman Ben Bernanke started the selling in stocks and bonds Wednesday.

Bernanke said the Fed expects to scale back its massive bond-buying program later this year and end it entirely by mid-2014 if the economy continues to improve.

The bank has been buying \$85 billion a month in Treasury and mortgage bonds, a program that has made borrowing cheap for consumers and business. It has also helped boost the stock market.

Tulsa World Business columnist John Stancavage contributed to this story by The Associated Press.

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