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Credit gets shot in the arm from Fed

By Don Mecoy
Business Writer

The Federal Reserve rode onto Wall Street this week like the cavalry, wielding cash and rate cuts to ease a credit crunch that has punished stock prices.

For Tulsa portfolio manager Fred Russell, the central bank's rate cut on Friday was a watershed moment.

"Credit is cheap again, and everyone wants to party," Russell said. "The party is just beginning."

The central bank cut 50 basis points early Friday from the discount rate banks are charged for short-term loans, spurring the Dow Jones industrials to soar more than 300 points at the opening bell. The Dow ended the day with a 233-point gain.

The Dow closed with a furious rally Thursday that nearly erased a 300-point loss after rumors circulated that the Fed might be poised to take emergency action. The central bank pumped billions of dollars into the banking system in an effort to relieve a credit crunch that has squeezed hedge funds, investment bankers and other financial sectors.

Although problems remain in the mortgage and housing market that prompted tightening credit, Russell said the Fed's discount rate cut was decisive.

"Contrary to what we believe in Oklahoma, the national economy does not run on oil — it runs on credit. Today the Federal Reserve made it a lot less expensive," said Russell, of Fredric E. Russell Investment Co.

But uncertainties remain, said Bob Rader, senior vice president of Capital West Securities.

"I'm still concerned," Rader said. "What will happen next week? Is there still stuff out there that we don't know about?"

The Fed's attempts to loosen the money supply don't necessarily mean the stock market will continue its ascent, Rader said.

"I think Wall Street is tired; we've had such a week," Rader said. "Next week, we could see more volatility. I think a lot of investors don't know whether to go long, whether to get out."

The Fed kept its key federal funds rate at 5.25 percent, with most observers thinking the panel will cut that rate at its September meeting. The Fed hinted it was willing to act again if conditions deteriorated further, acknowledging that the stock market turbulence that has pulled the Dow by hundreds of points a day was posing a risk to economic growth.

"Tighter credit conditions and increased uncertainty have the potential to restrain economic growth going forward," the Fed statement said. The panel "is monitoring the situation and is prepared to act as needed to mitigate the adverse effects on the economy arising from the disruptions in financial markets."

The Dow closed the week down 1.23 percent, but remains up nearly 5 percent on the year. The broader Standard & Poor's 500 index lost 0.5 percent on the week, and has gained nearly 2 percent in 2007.

The average investor probably should just sit tight, Rader said.

"If you've got good quality stocks, or are invested in a 401k and you've got good stuff, stay right where you are,” Rader said.