

Rocky Mountain News

Drop seen as overdue correction

By David Milstead, Rocky Mountain News

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Investing may be a marathon, not a sprint. But either way, you just stepped in a pothole.

Tuesday's one-day drop of 416 points in the Dow, or about 3.3 percent, wiped out all of its 2007 gains. A drop in the Standard & Poor's 500 of close to 3.5 percent also left that index below levels seen on New Year's Eve.

Investors in the broad market now are down for the year .

Markets opened to news of a 9 percent slide in Chinese stocks a day after its record high close. The Dow started falling sharply and got worse in late afternoon. Computer problems delayed the recording of trades, and the Dow dropped 178 points in a single minute just before 3 p.m. Eastern time.

At its low point in intraday trading, the Dow fell 546.20, or 4.3 percent, before recovering in the last hour of trading. It was the worst one-day performance since Sept. 17, 2001, the first trading day after the terror attacks. The Dow fell 684.81, or 7.13 percent, that day.

Early today in Asia, shares continued to tumble. Markets in Tokyo, Hong Kong, Australia, New Zealand, the Philippines and Indonesia all were down more than 3 percent.

"A correction was overdue," said Barbara Walchli of the Aquila Rocky Mountain Equity Fund. "The S&P 500 and the Dow had not had a 2 percent correction since July, the longest period since 1954."

Added Warren Olsen of Denver's First Western Trust Bank: "I have thought that the consensus outlook of mid-to-high teen returns has been too bullish, as too much good news was priced into the market coming into the year."

The drop hit every sector.

Riskier issues such as small-cap and technology stocks suffered some of the biggest declines, but big industrial companies, which often are hurt the most in an economic downturn, also were pummeled.

A bigger drop is needed for an official "correction," which is considered a 10 percent decline in a bull market. Just a week ago, the Dow had reached new closing and trading highs, rising as high as 12,795.92; it's now down 4.5 percent from that level.

The tech-dominated Nasdaq composite index was off 96.65, or 3.86 percent, at 2,407.87, and has also turned negative for the year.

The Russell 2000 index of smaller companies dropped 31.03, or 3.77 percent, to 792.66, but remains slightly up. The Bloomberg Rocky Mountain News Index, while up for the year, dropped 3.2 percent. The 110-company index saw 32 members fall 5 percent or more.

China's stock market plummeted on concerns that the Chinese government may try to temper its ballooning economy by raising interest rates or reducing more of the money available for lending.

"Globally we have been seeing foreign monetary authorities raise interest rates for a year and there is more to come," Walchli said. "The Chinese government's announcement was more evidence that global liquidity may be contracting."

Welcome to the new global market climate, said Don Cassidy, president of the Retirement Investing Institute.

"Any market that has a big violent drop spreads chills globally," Cassidy said.

However, the folks who make their money by investing other peoples' money generally remain positive about the market.

"In the grand scheme of things, we see the markets recovering quickly from this hiccup with a modest increase through midyear," said Gregory Anderson of GRAnderson Wealth Management Group.

Patricia A. Ryan, a professor of finance at Colorado State University, sounds a discordant note.

"The market correction provides additional evidence that we are headed into a slow-growth market and likely a recession by mid-2007. We have seen strong growth since October 2006, and a correction was to be expected. It was just the timing that was unknown."

What the experts think

"I expect a net sideways and choppy market. This drop has broken the back of confidence built on the long rally since last summer, though. I expect continued volatility for the next two weeks."

Don Cassidy, president, Retirement Investing Institute

"I like to see sell-offs more 'orderly' than all at once. I don't believe we are extremely overvalued at these levels, but we certainly are undervalued. I didn't see a trigger in our markets that caused this retreat."

Dennis Clark, Capital Asset Management

"I will not be changing my allocation based on what happened today. I always view these days as healthy because it lowers expectations for the market, which improves returns for the market going forward. The emerging markets needed to cool off; they were starting to depart from their fundamentals."

W. Greg Denewiler, Denewiler Capital Management

"I wouldn't be buying or selling anything (today) based on what happened (Tuesday). I would rather wait to evaluate whether this is a one-to-two day phenomenon or the start of a more serious correction or even a bear market. The rest of the week will be important to see if there is a bounce back in the Chinese markets first, then what damage has been done to the hedge funds around the world, and third if investors use this as a buying opportunity to pick up stocks unfairly punished in this sell-off."

Fred Taylor, Northstar Investment Advisors LLC

"Pockets of uncertainty in China, or the U.S mortgage markets for that matter, are not likely to derail what is otherwise a pretty solid investment environment, one of continued domestic economic and earnings growth, relatively benign interest rates and historically reasonable valuation levels. Our outlook is unchanged: We expect the S&P 500 to show a 10 percent, plus or minus, total return for 2007."

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