

Stocks rally; fears remain

Analysts: Tuesday plunge shows investors must be aware of global volatility

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U.S. stock markets rebounded somewhat Wednesday after plunging more than 3 percent Tuesday, leaving investors wondering how to protect themselves against global market volatility.

"Tuesday did definitely remind people that things can go down," said Brad Sorensen, director of equity research at the Schwab Center for Investment Research in Denver. "Volatility still isn't dead."

The Dow Jones industrial average rose 52.39 points, 0.43 percent, Wednesday to close at 12,268.63. The Nasdaq composite index rose 8.29, 0.34 percent, to close at 2,416.15. The S&P 500 rose 7.78, 0.56 percent, to 1,406.82.

Of the 110 stocks in the Bloomberg Colorado Index, 62 were up, 44 were down and four were unchanged Wednesday. Liberty Media Corp. shares rose 4 percent to close at \$107.88.

Investors have piled into emerging and foreign markets in recent months, chasing returns without much thought to risk, analysts said.

One example: Emerging-market bonds should command a much higher interest rate than U.S. bonds, but that gap has become very small, Sorensen said.

A nearly 9 percent drop in the Shanghai stock index sent shock waves around the globe Tuesday, driving down the S&P 500 by 3.5 percent. Shanghai rebounded with a 3.9 percent gain Wednesday but had slipped 1.7 percent by midday today.

U.S. investors hadn't suffered such a sharp one-day drop since 2003. But downward moves like Tuesday's aren't rare. U.S. markets have fallen by 3.4 percent or more 132 times in the past 80 years, according to OppenheimerFunds.

"It was time for a correction," said Kirby Holluns, a Denver resident. "I'm comfortable with what I'm doing with my portfolio."

That includes investments in South American markets, which have performed well for him.

"It was a temporary glitch. It adjusted us back to where the markets were at the beginning of the year," said Steve Hawthorne, a Golden resident and petroleum landman. "I see it as a buying opportunity."

The question of risk will become more important if a slowdown in the U.S. economy triggers a larger decline in stock values in the months ahead.

"We are at an inflection point in the economy. Is it going to be the soft landing or will there be something more severe?" Sorensen asked.

Federal Reserve Chairman Ben Bernanke reassured investors Wednesday that the U.S. economy was on track, following comments by former Chairman Alan Greenspan that growth may be slowing, setting the stage for a recession.

The U.S. economy grew at a 2.2 percent annual pace in the fourth quarter, significantly below the 3.5 percent pace originally estimated a month ago, according to the gross-domestic-product report released Tuesday.

Tighter business spending and continued troubles in the housing and auto sectors weighed down growth as 2006 came to an end.

Some money managers and investors viewed the downdraft Tuesday as an overreaction and a reason to buy.

"Tuesday's behavior was classic bull market, stair step, measured rallies with short, steep and hair raising declines," Paul Schatz, president of Heritage Capital in Woodbridge, Conn., said in a report to investors.

The 1990s bull market suffered major declines in 1997 and 1998, only to richly reward investors who held on through early 2000.

"Small hiccup"

Corrections in bull markets tend to be sharp and unexpected, followed by moves higher. Bear markets tend to be slow, grinding affairs.

The bear market that started in 2000 tested investors until the fall of 2002. Schatz predicts the U.S. stock market will give investors one more big scare before moving to new highs in April.

"I see it as a small hiccup at this point. It creates some opportunities," said Gregory Anderson, president and chief investment officer at GRAnderson Wealth Management in Cherry Creek.

Anderson has no plans to bail out of emerging markets where he was invested.

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