Stock market slides fast and far

by: Staff and Wire Reports
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Stocks took their deepest plunge in more than a year Thursday as fears grew that Europe's debt crisis could spread around the world and undermine the U.S. economic recovery. The possibility has been brewing for weeks, but analysts said some investors are just waking up to it.

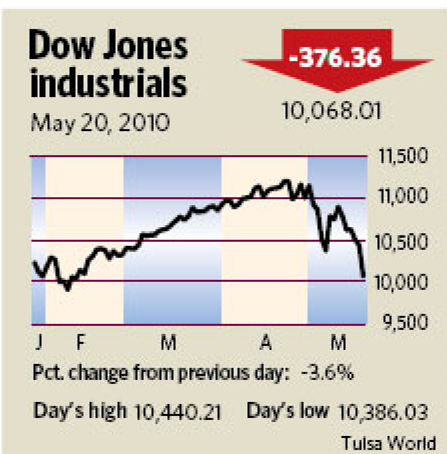
The Dow Jones industrial average fell 376 points, its biggest point drop since February 2009. All the major indexes were down well over 3 percent and are now showing losses for 2010.

Difficulties in the eurozone are troublesome to U.S. investors, said Fred Russell, principal of Fredric E. Russell Investment Management Co. in Tulsa.

"The global economy is so interconnected and symbiotic today that when one country has a problem, it makes for a very, very fragile system," he said.

Interest rates fell sharply in the Treasury market Thursday as investors once again sought the safety of U.S. government debt.

The number of Americans applying for unemployment benefits last week rose unexpectedly, and the Greek government's response to its debt crisis sparked new protests in Athens, but analysts said neither event appeared to set off Thursday's selling.



They said more investors seemed to be grasping the possibility that the U.S. recovery could be in jeopardy, and that many were realizing that the stock market's big rebound since March 2009 may not have been justified.

"The economic recovery story has started to look like a mirage," said Tom Samuels, manager of the Palantir Fund in Houston. "If that's correct, stock prices are well ahead of economic reality."

Besides concerns about Europe, investors are worried that China might take steps that will limit its economic growth, which would also affect the U.S. recovery. Analysts said the market is vulnerable to rumors about any of the major economies right now.

The Standard & Poor's 500 was down almost 12 percent from its closing high for the year, which was reached April 23. Most analysts consider a drop of more than 10 percent from a recent high to be a "correction." This is the market's first correction since stock indexes hit a 12-year low in March last year. The fact it has occurred in just 19 trading days shows how anxious traders are right now.

The Chicago Board Options Exchange's Volatility Index — known as the market's fear gauge — leaped almost 30 percent to its highest level since March 2009. The increase in the VIX signals that traders are bracing for more drops in the market.

The VIX closed at 45.79, nearly three times its 2010 low of 15.73, reached April 20.

Analysts said traders were retreating from any investment thought to be too dangerous to own right now. That has meant heavy selling in stocks, commodities and troubled currencies like the euro.

The 16-nation euro, a key indicator of confidence in Europe's economy, managed to rise to $1.2491 in late afternoon trading, a day after hitting $1.2146, a four-year low. The euro began the year at $1.4325.

The Dow has fallen 1,137 points, or 10.2 percent, since hitting its 2010 high April 26. It has fallen by at least 100 points in nine of the 19 trading days since its peak.

On Thursday the Dow fell 376.36, or 3.6 percent, to 10,068.01. The S&P 500 fell 43.46, or 3.9 percent, to 1,071.59. All of the 30 Dow stocks fell, while 497 of the 500 S&P stocks closed lower.

The Nasdaq composite index fell 94.36, or 4.1 percent, to 2,204.01, its largest percentage drop since February.

Bank of America Corp. had the biggest percentage drop in the Dow. It fell $3.25, or 6.3 percent, to $15.28. Sears Holdings Corp. had the worst percentage drop in the S&P 500, falling $10.86, or 10.9 percent, to $88.70 after reporting first-quarter earnings.

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