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Investors: Still Shaken: Market rebounds modestly

By Staff and Wire Reports
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Wall Street rebounded fitfully Wednesday from the previous session's 416-point plunge in the Dow Jones industrials as investors took comfort from comments by Federal Reserve Chairman Ben Bernanke but still showed signs of unease about the economy.

Bernanke's remarks to Congress that he still expects moderate economic growth gave some investors confidence to look for bargains. A recovery in some overseas markets following a worldwide selloff Tuesday also lent some support to U.S stocks, but the advance lacked some conviction -- the major indexes fluctuated throughout the day.

The Dow ended the day up 52.39, or 0.43 percent, at 12,268.63.

The market's broader indicators also managed gains. The Standard & Poor's 500 index climbed 7.78, or 0.56 percent, to 1,406.82, and the Nasdaq composite index rose 8.29, or 0.34 percent, to 2,416.15.

The stock market's gain on Wednesday wasn't much of a recovery after Tuesday's devastation, said Fred Russell of Fredric E. Russell Investment Management Co. in Tulsa.

"All around the world investors are worried about the problem of too easy credit. Money has been cheap for a long time, and cheap money has fed an unbridled, undisciplined appetite for credit," he said.

Russell said he thinks there are going to be more days like Tuesday.

"I don't think this is over," he said. "As investors come to grips with the extent of the overconsumption of credit and the risk that that overconsumption poses, they will continue to assess their positions in stocks, and continue to sell.

"The markets are going to survive, but it's going to be a few weeks of discomfort."

No one can predict what the market is going to do, said Aaron Clark, vice president and director of research for Paragon Financial Group in Tulsa.

"As a general rule, the more steeply the market rises, and the longer the duration between selloffs, the increased likelihood of a more vicious correction," he said.

With an uptick in inflation or a deeper contraction in corporate earnings, the market could easily depress another 3 percent to 5 percent or more, depending on how bad those indicators are, Clark said.

If the economy shows signs of strengthening sometime during the middle of the year and nothing odd happens, the stock market could see another positive year with gains in the mid- to high-single digits, Clark said.

"The market volatility has been at historically low levels, and people should expect more volatility in the months to come, especially after such an extensive bull rally," Clark said.

Bernanke allayed some of the fears about a slowdown in the U.S. and Chinese economies that fed Tuesday's drop; remarks earlier in the week from former Fed Chairman Alan Greenspan warning that a U.S. recession could take hold later this year contributed to Tuesday's declines.

A recovery in China's Shanghai Composite Index, which had fallen nearly 9 percent Tuesday, also helped boost U.S. stocks, although other Asian markets and European exchanges saw declines of more than 1 percent.

Tuesday's decline, which was the largest point drop in the Dow industrials in more than five years, made February an unwelcome month for the 30-stock index. The Dow had its worst monthly percentage drop since April 2005 and the worst monthly point decline since December of 2002.

For the S&P, February was the worst percentage and point decline since May last year. And for Nasdaq, the month marked the worst percentage and point decline since July.

Bonds fell Wednesday as stocks tried to recoup some losses. The yield on the benchmark 10-year Treasury note rose to 4.57 percent from its low for the year of 4.47 percent late Tuesday.

The market took some solace from the Commerce Department report that the U.S. economy grew at an annual rate of 2.2 percent in the fourth quarter. The gross domestic product reading was slightly below expectations, but wasn't as weak as some investors had feared. The figure was more than a percentage point below the initial estimate of 3.5 percent made a month ago.

In other economic news, the National Association of Purchasing Management-Chicago index of business conditions in the Midwest showed a weaker-than-expected reading. The February figure fell to 47.9 from 48.8 in January. The report is often viewed as a bellwether for the Institute for Supply Management's index of manufacturing activity for February, which is due Thursday.

Also, a Commerce Department report found new-home sales fell by 16.6 percent in January from the previous month, the largest drop in 13 years.

"People are still more worried than they were two days ago but at the same time they seemed to take a little bit of comfort about today's comments," said Drew Matus, senior economist at Lehman Brothers Holdings Inc. "What we saw was about right," he said, referring to Wednesday's trading.

"It showed that Bernanke has come into his own as a central banker. He passed his first crisis-management exam."

While some observers had warned that stocks had grown overvalued after the strong gains logged in 2006, Tuesday's pullback nonetheless came as a surprise on Wall Street, which had gone 45 months without a decline of more than 2 percent in single session.

Tulsa World Business writer Laurie Winslow contributed to this report by The Associated Press.

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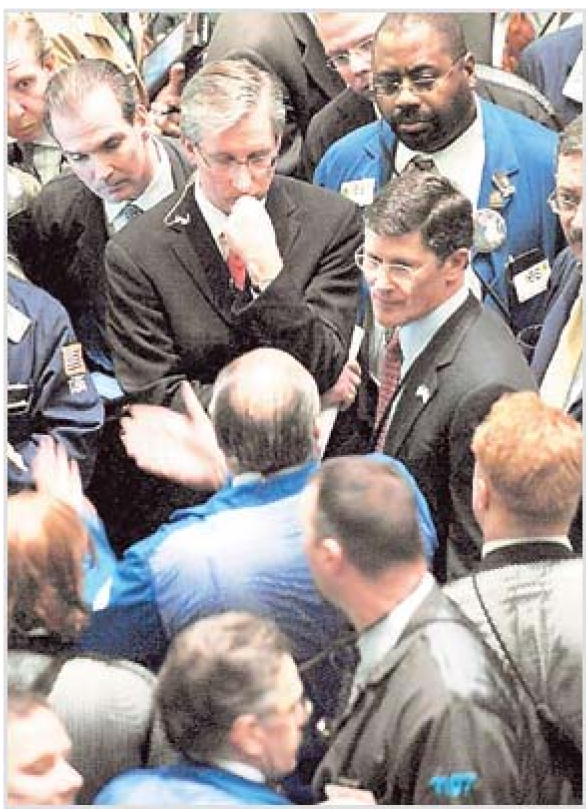

New York Stock Exchange CEO John Thain (right) and CNBC anchor Bob Pisani (left, with hand on chin) listen to a trader Wednesday on the floor of the New York Stock Exchange. Investors shaken by Tuesday's stock

market plummet took comfort from comments by Federal Reserve Chairman Ben Bernanke but still showed signs of skittishness about the economy.
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