Stocks Mixed After Bear Stearns Deal

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NEW YORK (AP) — Wall Street ended a temperamental session widely mixed Monday after investors grappled with JPMorgan Chase & Co.'s government-backed buyout of the stricken investment bank Bear Stearns & Co.

The Dow Jones industrials recovered from an initially drop of nearly 200 points to finish up about 21 points. The broader Standard & Poor's 500 and Nasdaq composite indexes ended lower, as investors bailed out of investment banks and small-cap stocks and fled instead to large companies apt to be reliable during a weak economy.

"You move to the defensive names in times of market uncertainty — safer, consumer names," said Ryan Detrick, senior technical strategist at Schaeffer's Investment Research.

The buyout of Bear Stearns was certainly more appealing than the alternative: letting the investment bank collapse and causing huge losses for anyone linked to it. And some unprecedented moves by the Federal Reserve gave investors a bit of solace on what many predicted would be a day of precipitous losses in the stock market.

Besides supporting the buyout, the Fed lowered the rate it charges to loan directly to banks by a quarter-point on Sunday night — two days before its scheduled meeting Tuesday. The central bank also set up a lending option for firms, including many non-bank financial services firms, to secure short-term loans for a broad range of collateral.

The Fed appears to be pledging to do everything in its power to keep the credit crisis from decimating the financial industry and the economy. Policy makers at the central bank are expected to reduce the target fed funds rate — the rate banks charge each other for overnight loans — by at least a half-point on Tuesday, and perhaps even a full point.

But the market remained extremely volatile. The sale of Bear Stearns — at a minuscule $2.21 a share as of Monday's close, or a total of $260.5 million — stirred fear among investors worldwide about other banks' exposure to the troubled credit markets.

"You're going to have some very weak players pushed out of business," said Joseph V. Battipaglia, chief investment officer at Ryan Beck & Co. He said JPMorgan's buy of Bear Stearns and Bank of America Corp.'s acquisition of mortgage lender Countrywide Financial Corp. are probably not the only rescues the industry will witness during this credit crisis.

According to preliminary calculations, the Dow rose 21.16, or 0.18 percent, at 11,972.25, after falling nearly 200 and rising more than 100. The Dow was supported in part by JPMorgan, by far the biggest gainer among the 30 component stocks. JPMorgan rose $3.77, or 10.3 percent, to $40.31.

The Dow also got a lift as investors aimed for large-cap stocks such as AT&T Inc., up 76 cents at $35.79, Verizon, up 79 cents at $34.61, and pharmaceutical maker Johnson & Johnson, up $1.39 at $64.04.

The Standard & Poor's 500 index fell 11.54, or 0.90 percent, to 1,276.60. The Nasdaq composite index, heavily populated by small and high-tech companies, fell 35.48, or 1.60 percent, to 2,177.01.

"The market has absolutely no idea what's going on," said Dan Alpert, managing director of Westwood Capital. "Some people have accused them of whistling past the graveyard — I don't think they even know where the graveyard is."

He added that short-covering — the unwinding of bets that stocks will fall — ahead of Tuesday's Fed meeting contributed to the market's atypical movements.