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Street Shaken Up

by Steve Schaefer

Wall Street took another precipitous fall Thursday with the seizure in the credit markets impacting every sector on the map. From the lack of buyers for commercial paper to frozen interbank lending, the current state of affairs has paralyzed equity markets and sent the Dow Jones industrial average to five straight triple-digit losses.

After plunging 679 points, or 7.3%, to close at 8,579, the blue-chip index now sits 39.4% below the record finish it hit exactly one year ago. Thursday's picture was just as bleak for the S&P 500, which fell 75 points, or 7.6%, to 910, and the Nasdaq, down 95 points, or 5.5%, to 1,645.

Thursday's session may have been rocky, to say the least, but Westwood Capital managing director Daniel Alpert thinks the stunning drop may have been just what the market needs. "This is the house cleaning that the market has been procrastinating over for a year," Alpert wrote in an e-mail to Forbes.com, "by any measure, we are now at the point of capitulation." He suggests it is time to address the fundamentals underlying the crash that have been in place for over a year, but "this too shall pass."

Ninety minutes after the closing bell, Citigroup announced it had walked away from negotiations over a transaction with Wachovia, unable to reach a deal with the bank and its other suitor, Wells Fargo. Citigroup's press release had almost a petulant tone, stressing the bank's willingness to step up to an FDIC-brokered deal to acquire Wachovia assets, "while others walked away."

Vikram Pandit, Citigroup's chief executive, said: "We did not seek the Wachovia transaction; Wachovia brought it to us."

Citigroup's exit appears to pave the way for Wells Fargo to move ahead with its deal for Wachovia, but Citi is still planning to pursue damage claims for breach of contract and tortious interference. Shares of Citigroup lost \$1.47, or 10.2%, to \$12.93 on Thursday, but ticked higher in after-hours trading. Wachovia fell \$1.46, or 28.9%, to \$3.60, while Wells Fargo dropped \$4.65, or 14.6%, to \$27.25.

Friday morning's focus will be on General Electric, which reports third-quarter earnings before the opening bell. Expectations are muted after the U.S. bellwether cut its third-quarter and full-year outlook in September. GE is expecting to post third-quarter profits between 43 cents and 48 cents a share, and the Street is counting on 45 cents a share. GE shares slid \$1.64, or 7.9%, to \$19.01 on Thursday. (See "GE Pays Now For Profit Later.")

President Bush plans to address the nation to comment on recent market volatility shortly after Friday's open, but with the efforts of the Federal Reserve and Treasury Department having failing to crank up liquidity and put in a floor for the markets, it is hard to believe the soothing words of the commander in chief will get investors buying again.

Nonetheless, it appears more likely that the week's massive sell-off has created buying opportunities that are simply too appetizing to ignore, despite the grinding of credit markets and what appear to be expectations that the entire global economic system is balanced on a razor's edge.