Stocks plunge amid fears of a slowing economy

The Dow plummets 2.3% a day after the Fed signals it will end its aggressive bond-buying program.

By Alana Semuels and Andrew Tangel, Los Angeles Times
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NEW YORK — This year's dizzying stock market rally was halted with the biggest one-day plunge of the year.

The Dow Jones industrial average slumped almost 354 points Thursday amid fears that the economy will slow now that the Federal Reserve has signaled it will end its aggressive economic stimulus programs.

Investors yanked $500 billion from the stock market during the brutal trading session, wiping out two months' worth of market gains.

Though the blue-chip index is still up 15% from a year earlier, analysts have begun to question whether this week's sell-off could portend a deeper problem for investors.

"There are a lot of moving parts here, which is causing people to say, 'It's been a great ride, but let's nail down the profits,'" said **David Dietze**, chief investment strategist at Point View Wealth Management Inc. "Now that the ship seemed to have turned the course, what's going to stop it?"

After more than doubling over the last four years, the Dow fell 353.87 points, or 2.3%, to 14,758.32. It comes just three weeks after the blue-chip index reached an all-time high of 15,409.

The decline was the steepest since Nov. 7, the day after the election that returned President Obama to office.

Broader indexes also dropped sharply. The Standard & Poor's 500 Index fell 40.74 points, or 2.5%, to 1,588.19. The broad market barometer also reached a record last month, hitting 1,669. The tech-heavy Nasdaq composite index shed 78.57 points, or 2.3%, to 3,364.63.

This marked the second straight day of declines for the market, which was spooked that policymakers will soon begin to taper the government's $85-billion-a-month bond-buying program. The stimulus has kept interest rates low and injected more confidence into the stock market.

Investors are collecting profits on money earned during the market boom and taking a more cautious stance, analysts said. In fact, about $775 billion has been pulled out of the stock market since the

Fed's meeting in Washington ended Wednesday, according to the broad Wilshire 5000 Total Market Index.

Many on Wall Street had been speculating that the market was growing more quickly than it should. Before the sell-off, the Dow was up 20% from a year earlier and has more than doubled since the low of March 2009.

Dietze said he knew that the chase for high yields had gotten a little out of hand when investors started bidding over Rwanda bonds.

"People were chasing yield without any regard to quality," he said. "Usually, you wouldn't touch that type of bond."

The market got a little too frothy for some longtime market watchers. They had been concerned because stock prices continued to balloon despite signs the economy was still sluggish and further fallout from the Eurozone recession.

"What wasn't normal was a market that kept going up and up without any regard to negative data," said Quincy Krosby, a markets strategist at Prudential Financial. "It's healthy for the markets to pull back and reassess the landscape, and this is what's happening."

Still, some investors worry that the Fed was too optimistic in its economic projections Wednesday, especially after data from China indicated that the country's manufacturing sector had contracted and that its banks were facing a liquidity crisis. That triggered worries about growth in the world's second-largest economy.

"China still looks pretty crummy," said Michael Feroli, chief U.S. economist at JPMorgan Chase & Co. "The growth picture is still pretty downbeat."

The benchmark 10-year U.S. Treasury bond yield climbed to its highest levels since August 2011 on Thursday as investors fled the bond market in anticipation of higher interest rates.

The yield jumped to 2.41%, up from 2.35% the previous day. Yields move in the opposite direction of bond prices.

Even investments considered to be relatively safe took a beating. Gold took the biggest plunge in percentage terms, falling 6.5%, and oil dropped 3.8%.

Jeffrey Nichols, a gold watcher and managing director of American Precious Metals Advisors, said gold will climb back up when investors realize how much the economy is still struggling.

"Fed expectations are often unrealized," he said. "To be blunt, its track record at forecasting the economy has been dismal."

Analysts don't expect the market's slump to end until investors get some reassurances that the economy is still improving. That will probably come when companies release their second-quarter earnings next month.

But those could be lackluster too. Companies including Wal Mart Stores Inc. and Bank of America Corp. reported disappointing first-quarter earnings this year, citing the expiration of the payroll tax cut as a factor.

Some analysts believe pain in the market is a necessary move to withdrawing the stimulus and getting the economy to stand on its own again. But it isn't an easy path, as Bernanke acknowledged Wednesday.

"We've been living in a sugar-high market induced by massive pumping of stimulus into the economy," said Dietze at Point View. "This is the first step in getting rid of that massive stimulus, which ultimately could be healthy, and give people more confidence in the economy."

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