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Another downer day on Wall Street

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Off 800, index rallies but falls below 10,000

By Kevin Smith, Staff Writer Article Launched: 10/06/2008 10:38:36 PM PDT

Wall Street suffered another white-knuckled day Monday, with the Dow Jones industrials posting a record-breaking one-day loss of 800 points before recovering to cut that loss in half.

The recovery reduced the Dow's loss to 370 points. But it also left the blue chip index below 10,000 for the first time in four years.

U.S. markets were reacting to a growing unease among investors that the spreading credit crisis will take a heavy toll around the world. But Christopher Thornberg, an economist with Beacon Economics, said there's also an element of "overreaction" at work.

"The stock market is the original drama queen," Thornberg said. "It overreacts to everything - that's the nature of the beast. We're looking for fundamentals and these guys are betting against each other. It's a big game."

And the late-market rally?

"Everyone has been sitting on the sidelines and they were in buy positions," Thornberg said. "Once it kinda' hit bottom ... the bottom-feeders jumped in."

The Dow's low came just before the last hour of trading, and the decline was an ominous sign for investors who worried the market would tip even lower in the final stretch of the day. Late-day sell-offs are seen as a sign of fleeting confidence.

At its worst point, the Dow was down 800.06, an intraday record. The stock market rallied during the final 90 minutes of the trading day, and the Dow finished down about 370 points at 9,955.50.

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average is down almost 30 percent from its all-time high of 14,164.53, set a year ago Thursday.

The day's decline came despite the \$700 billion U.S. government

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Table with 2 columns: Index, Value, Change. NYSE 5427.54 -244.39 (-4.31%), Nasdaq 1552.03 -51.88 (-3.23%)

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bailout package, which was signed into law Friday after two weeks in which traders had appeared to count on the rescue as their only hope to avoid a market meltdown.

But investors overseas weren't necessarily convinced. In Japan, the Nikkei average lost more than 4 percent. And then the losses spread across Europe - nearly 6 percent for the FTSE-100 in Britain, 7 percent

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for the German DAX and more than 9 percent for [France's](#) CAC-40.

"It really shows you that there is so much uncertainty in the financial markets," said Steve Johnson, director of the Riverside office of Metrostudy, a real estate information and consulting firm.

"I think the entire investment community has no idea how serious this is. More and more economists are pointing to a longer and stronger recession. I think we're going to be in this longer than it was initially thought."

Eduardo Martinez, an economist with the Los Angeles County Economic Development Corp., said investors "voted with their feet" on Monday.

"If you take a step back and see what the price is for a stock, it's really what people think the future profitability is," he said. "They're expecting lower profits over the coming months."

There's also plenty of uncertainty about [the Bush administration's](#) \$700 billion rescue plan - a move that's intended to remove toxic mortgage-related debt from the portfolios of U.S. banks and kickstart lending again, Martinez said.

"A lot of eyes are now looking toward the [European Union](#)," he said. "Some expect them to come out with a similar program. They're also dealing with mortgage problems and most of it is U.S. debt. But the European Union has 25 countries, so it's going to be hard for them to come up with a bailout."

Countries such as Denmark, Germany and Ireland have instituted mechanisms to insure bank deposits in their countries, much like the U.S. Federal Deposit Insurance Corp. But there is a strong feeling that the European Union needs to act as well, Martinez said.

The Associated Press contributed to this story.

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