

Markets Dive After House Rejects \$700 Billion Bailout Package Tuesday, September 30, 2008

Financial markets fell off a cliff Monday, with the Dow Industrial Average (an unmanaged index of 30 widely held stocks) finishing the day at 10,365.45 – down 777.68 points, or 6.98%, from Friday’s close. The drop occurred after the House of Representatives unexpectedly rejected a proposed \$700 billion package designed to relieve the financial industry of its troubled mortgage-related debt.

Despite Monday’s market plunge, September 29, 2008, in all likelihood will not replace the “Black Monday” of October 19, 1987, when the Dow Industrial Average (an unmanaged index of 30 widely held stocks) lost more than 22% of its value.

Other widely followed indices fell spectacularly Monday, as well. The S&P 500 (an unmanaged index of 500 widely held stocks) fell 106.59 points, off 8.79%, to 1,106.39 while the NASDAQ composite (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) dropped 199.61 points, or 9.14%, to 1,983.73.

To add to the gloom, yet another marquee bank was broken up as Citigroup agreed to take over the banking operations of Wachovia for \$2.2 billion. And that just days after Washington Mutual collapsed and was gathered up by JPMorgan Chase for \$1.9 billion. The redrawing of the American financial landscape continues unabated, and experts tend to agree that several smaller banks are likely to need rescuing. Most banks that have either failed or been swallowed up found themselves in trouble because they were heavily exposed to mortgage-related investments.

Observers were dumbfounded by the failure of the bailout bill, a massive measure designed to allow the government to buy up bad and suspect debt from troubled financial institutions. After more than a week of debate, meetings and political compromises, Congressional leaders on both sides of the aisle thought that their bipartisan approach would spur House passage on Monday.

As you have often heard, confidence is a determining factor in markets and market value. When confidence is shaken badly, as it has been over the past year and over the past few weeks in particular, the only solution is to restore it. The bailout measure was designed to do that. While it was defeated Monday, it seems likely to somehow be resurrected. Late in the day it was reported that the House will reconvene on Thursday to try again.



In such a fluid situation, investors with a long-term horizon may best be served by keeping a watchful eye on the situation and avoiding hasty moves. No one knows how deep the lack of confidence and financial industry troubles will drive the markets, but, historically, such black periods – sometimes quickly, more often, slowly – have been wiped away by subsequent restoration of confidence and, with it, value.

If you have questions about the state of the financial services industry, the meaning of the bailout package, or would like to discuss how your portfolio and specific investments are faring, please feel free to contact us.

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