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A January to forget

High anxiety on Wall Street as it waits for Fed

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In the 20 years Mike Marcotullio has worked on Wall Street, he's seen historic market reversals that pushed weaker men to the brink of despair.

Like Jan. 23, when the Dow whipsawed 625 points in one day, fueling drama on the trading floor that ranked up there with the fallout from the crisis in the Long Term Capital Management hedge fund in 1998 and the technology bust of 2000 and 2001.

"There has been a lot of fear, panic and insecurity in the markets and the U.S. economy based on the housing decline," said Marcotullio, senior principal in American Capital Partners, an investment bank in New York City.

This week, the stock market has been buoyed by hopes Federal Reserve Board Chairman Ben Bernanke will announce a one-half percentage point decrease in the Fed's key rate today, and until he does, stocks will still be subject to wild swings, fueled by concern the unfolding housing crisis could lead to more write-downs in the financial sector and tip the country into recession.

"Even if the Fed cuts 50 basis points, investors are still going to worry about an economic slump, and that could do untold damage to confidence," John Lonski, chief economist for Moody's Investors Service, said yesterday.

Economic data released this week was mixed: Manufacturer's orders for goods were up, but consumer confidence and home prices were down. Corporate earnings in some sectors, such as technology, were strong, but offset by losses in the financial and housing sectors. Countrywide, the nation's largest mortgage lender posted a \$422 million fourth-quarter loss yesterday.

"The market reaction to events has been extreme because of the uncertainty," said Dennis Enright, principal at NW Capital Markets, a fixed-income broker dealer in Jersey City. "Nobody truly knows the impact on the financial institutions of subprime losses, and nobody truly knows the impact on the economy of the interest rate cuts."

For individuals with stock options and retirement plans, the effect has been immediate, and severe in some cases.

"Probably back in 2000, when the tech bubble burst, was the last time I saw people have losses like this," Jeffrey Lieberman, a general practice accountant in West Caldwell, said.

Lieberman's clients, many of whom are nearing retirement age, have begun calling him regularly, concerned about the decrease in value of their portfolios and wanting to know what to do.

"I've been in this business for eight years and these are the wildest swings I've seen," said Jorie Johnson, a financial planner from Manasquan, whose clients, mostly couples in their 40s and 50s, are less concerned about their retirement portfolios because they don't plan on drawing on them in the near term.

For these couples, the drop in interest rates has been a boon, enabling them to refinance their mortgages at much lower rates. Two couples with mortgages at Countrywide have gotten new 10-year adjustable rate mortgages at 4.5 percent.

Unfortunately, refinancing is not an option in this market for those with weak credit, said JR Sangiuliano, who leads the Century 21 realty office in Clark and Rahway.

"Lowering the mortgage rates isn't helping people who are out of work, or those who can't afford the mortgage they have," Sangiuliano said. "They are all going back to rent."

In Union and Middlesex counties where Sangiuliano works, housing prices have dropped 14 percent to 16 percent.

"We are finding among people who bought in the past three or four years, that there are a lot of short sales and a lot of people selling who are behind in their mortgage payments," Sangiuliano said.

Farrokh Langdana, a professor of economics at Rutgers University School of Business, has been tracking the economic slowdown since October. "You can lower rates until you are blue in the face, but it's a matter of confidence," said Langdana, a specialist in macroeconomic policy. "Sometimes a minor recession, or soft landing, is not the end of the world. Maybe it is time for consumers to spend less."

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