



**August 8, 2008**  
**AIG's loss puts investors in sour mood**

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Another dose of bad news about the economy, financial system and consumer spending punished stocks and put investors back on the defensive.

The Dow Jones industrial average sank 224.64 points, or 1.9%, to 11,431.43, largely due to a \$5.25 decline of insurer American International Group to \$23.84. AIG, which reported a \$5.4 billion quarterly loss late Wednesday, put investors in a bad mood right when the market opened. It was the Dow's biggest point drop since July 28.

Unfortunately, there wasn't any news later in the day to cheer traders up. New applications filed for unemployment benefits skyrocketed last week to the highest level in six years, the Labor Department says.

And in another blow to the struggling financial sector, Citigroup agreed to refund \$7 billion to investors who bought securities from the institution that have become illiquid (story, 1B). Citigroup fell \$1.23 to \$18.47.

While the Dow suffered most on a percentage basis, the Standard & Poor's 500 index wasn't far behind. The S&P 500 lost 23.12 points, or 1.8%, to 1266.07. The S&P is off 13.8% this year, identical to the Dow's 2008 loss.

Tech stocks continue to hold up slightly better than the broader market, but are still down. The tech-heavy Nasdaq composite index fell 22.64 points to 2355.73, and is down 11.2% this year.

The sell-off "was long overdue," says **Joseph Saluzzi of Themis Trading**. The S&P 500's 6.1% rally from its low for the year, in July, was based on hope and not reality, he says.

"People were ignoring the news. Finally, with AIG, people are back to Earth and realize there are still financial problems going on," he says. "It's just getting worse."

News from retailers didn't inspire confidence regarding consumer spending, either (story, 3B). Wal-Mart reported slightly lower-than-expected 3% growth in same-store sales, and CEO Eduardo Castro-Wright said in a statement "with the end of the stimulus checks, we know consumers are spending more cautiously."

A cautious outlook from Wal-Mart shows how consumers are pulling back, says Oliver Wiener of BTIG. "Now everything is going down," he says. "There is no safety from the pain."

Investors should steel themselves for big moves like this week's, says Michael Holland of Holland & Co. "Emotion is a huge part of the market right now."