

Wall Street cuts losses

Investors scoop up select stocks hit in the recent decline, with transportation and technology issues leading the way. Banking sector worries persist.

By Alexandra Twin, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- Stocks stabilized Thursday afternoon, trimming morning losses as investors worried about the stability of the banking system, but also scooped up shares hit in the recent selloff.

The Dow Jones industrial average ([INDU](#)) and the Standard & Poor's 500 ([SPX](#)) index both lost a few points about 2-1/2 hours into the session, while the Nasdaq composite ([COMP](#)) added 0.3%.

Stocks slipped early in the session on concerns about Lehman Brothers, AIG and Washington Mutual. Meanwhile, a steeper-than-expected jump in the U.S. trade deficit and a weak jobless claims report added to recession fears.

Although financial shares remained under pressure, by midday technology, retail and other consumer stocks had turned higher, giving the broader market some stability.

A rally in airline, railroad and trucker stocks pushed the Dow Jones Transportation ([DJTA](#)) average up 2% as investors focused on the positive benefits of lower fuel prices. Automakers GM ([GM](#), [Fortune 500](#)) and Ford ([F](#), [Fortune 500](#)) also gained.

Talk that Goldman Sachs or someone else might step in to buy a stake in Lehman Brothers helped the stock erase bigger morning losses, said **Joseph Saluzzi**, co-head of equity trading at **Themis Trading**.

However, **Saluzzi** said such a development is extremely unlikely.

Lehman had been down 41% in the morning and was down 32% after noon ET. That helped the broader market recover.

"Be careful," said **Saluzzi**. "I don't trust the tape. There are still a lot of other problems out there."

He said that the sense is that the government bailout of Fannie and Freddie, while necessary, didn't really solve the broader issues. Furthermore, the hammering that AIG, WaMu and others are taking is not to be taken lightly.

"It's a 'where there's smoke, there's fire' situation with what's happening to those stocks," he said.

Stocks ended higher Wednesday as investors scooped up shares battered in the previous session's selloff and sorted through Lehman Brothers' steep quarterly loss and restructuring plans.

Lehman Brothers: Lehman ([LEH](#), [Fortune 500](#)) shares plunged 32% near midday, after having been down about 41% in the early going.

On Wednesday the bank [reported](#) a nearly \$4 billion fiscal third-quarter loss, its biggest quarterly loss since it went public in 1994. Lehman also said it will spin off part of its commercial real estate business, cut its dividend and sell a 55% stake in its investment unit, which includes profitable money manager Neuberger Berman.

Investors took a mixed response to the news Wednesday, initially boosting the stock, before sending it 7% lower by the close. However, the verdict was distinctly negative Thursday, as both Wall Street pros and investors wondered if the restructuring moves were sufficient to keep the firm afloat.

Goldman Sachs downgraded the stock to "neutral" from "buy," while Citigroup cut it to "hold" from "buy."

Lehman has struggled this year amid mounting losses related to bad mortgage bets and its inability to raise sufficient capital to continue operating its businesses properly. ([Full story](#))

Investors have been particularly wary of the company in the wake of the government bailout of Fannie Mae and Freddie Mac announced last weekend and the near-failure and ultimate government rescue of Bear Stearns in March.

A number of other financial firms have sparked worries about their exposure to bad mortgage loans and their ability to raise money. AIG ([AIG](#), [Fortune 500](#)) shares - as well as those of Washington Mutual ([WM](#), [Fortune 500](#)) and Wachovia ([WB](#), [Fortune 500](#)) - have been battered in recent days on such concerns.

The Philadelphia Bank Sector index fell 2.7%.

Economy: In addition to the banking system woes, investors received two discouraging economic reports Thursday, on the trade deficit and the labor market.

The U.S. trade gap [surged](#) to \$62.2 billion in July, its widest level in 16 months, as imported oil prices jumped. The results beat economists' forecasts for a dip to \$58 billion versus a revised \$58.8 billion in June.

The number of Americans filing new claims for unemployment fell 6,000 to 445,000 last

week, missing forecasts for a bigger drop to 440,000, the government reported.

Fuel prices: Oil prices fell as slumping demand reflected concern about the economic outlook. ([Full story](#)).

U.S. light crude [oil](#) for October delivery fell 45 cents to \$102.13 a barrel on the New York Mercantile Exchange, after closing at a more than 5-month low in the previous session.

Oil prices have lost more than \$45 a barrel since peaking at \$147.27 on July 11.

Gas prices [rose](#) overnight, climbing for the second day in a row as Hurricane Ike strengthened, according to a national survey of credit card activity.

Other markets: In [global trade](#), European and Asian markets ended lower.

In the [bond market](#), Treasury prices gained, lowering the yield on the benchmark 10-year note to 3.61% from 3.63% late Thursday. Prices and yields move in opposite directions.

The [dollar](#) rose versus the euro and slumped against the yen.

COMEX [gold](#) for December delivery fell \$14 to \$748.50 an ounce. ■