

REUTERS

US STOCKS-Wall St sinks on Lehman's demise, AIG fears

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By Steven C. Johnson

NEW YORK, Sept 15 (Reuters) - U.S. stocks slid on Monday as a bankruptcy filing by U.S. investment bank Lehman Brothers Holdings Inc and cascading fears about the stability of other major financial institutions spooked global markets.

Financial services companies' shares led the steep decline as investors worried about the impact of the credit crisis on firms' profit outlook and the broader economy.

Lehman shares shed 95 percent to 19 cents in composite trading.

Shares of American International Group, once the world's largest insurer by market value, plunged more than 50 percent to \$5.95. Savings and loan Washington Mutual fell 20.5 percent to \$2.18.

The latter two companies are among those investors fear are threatened by the credit maelstrom and may have to step up efforts to raise capital to shore up their balance sheets.

"The market is going to have a very tough time moving up significantly from here without the financials leading the way, but we still have many issues to work out with them," said Tim Ghriskey, chief investment officer at Solaris Asset Management in Bedford Hills, New York, adding "AIG is a big concern overhanging the market right now."

The Dow Jones industrial average was down 255.09 points, or 2.23 percent, at 11,166.90. The Standard & Poor's 500 Index was down 25.95 points, or 2.07 percent, at 1,225.75. The Nasdaq Composite Index was down 32.01 points, or 1.43 percent, at 2,228.96.

"It's impressive that we didn't get dumped 500 points, but I still want to see how we close. We're not out of the woods yet," said **Joe Saluzzi**, co-manager of trading at **Themis Trading** in Chatham, New Jersey.

At midday, AIG reached a deal with the state of New York that freed up \$20 billion. The stock was still down sharply -- off over 50 percent -- although earlier in the session, AIG had dropped over 60 percent.

A sharp slide in oil prices below \$100 a barrel helped cap the U.S. stock market's losses a bit by boosting airlines and other transportation companies, including Delta Air Lines, up 2.2 percent at \$8.31.

U.S. crude fell \$3.49 to \$97.69 a barrel on the New York Mercantile Exchange. The S&P energy index lost 2.5 percent.

Lower oil prices help ease spending strains on businesses and consumers, so shares of retailers and technology companies headed higher.

Internet retailer Amazon.com rose 0.3 percent to \$78.50 on the Nasdaq, while an index of airlines climbed 3.7 percent.

But the market's overall mood remained gloomy.

Heightened concern about the stability of other Wall Street firms followed the U.S. government's decision not to provide guarantees for any deal to help Lehman avert bankruptcy.

The S&P financial index tumbled 4.1 percent.

Lehman, weighed down by losses spawned by the U.S. mortgage crisis, sought bankruptcy protection on Monday following a scramble over the weekend in which it failed to find a buyer.

But while Lehman ended up with no option but to file for bankruptcy protection, Merrill Lynch, whose outlook has also come under scrutiny, agreed to be bought by Bank of America Corp, the No. 2 U.S. bank.

Merrill's stock jumped 18.7 percent to \$20.24, but Bank of America shares dropped 14.6 percent to \$28.83. (Additional reporting by Ellis Mnyandu; Editing by Jan Paschal)