

MARKETS

Dow posts biggest one-day point gain in history

The huge rally comes after central banks worldwide pledge to prop up the global banking system.

By Walter Hamilton

Los Angeles Times Staff Writer

October 14, 2008

NEW YORK — Can it last?

After suffering the worst weekly drubbing in its 112-year history, the Dow Jones industrial average leaped more than 900 points Monday -- its biggest one-day point gain ever -- as investors were encouraged by central banks' aggressive steps to shore up the global financial system.

But doubts lingered about whether the rally would have staying power, especially given the troubles afflicting global credit markets and the U.S. economy. Some fretted that it could be what Wall Street likes to call a sucker's rally -- a big gain in the midst of a bear market that gets investors' hopes up, only to dash them with further declines.

"There's just so much more that has to be remedied . . . that it's unlikely that we've hit bottom," said Bill King, market strategist at M. Ramsey King Securities in Burr Ridge, Ill. "We haven't seen the economic ramifications of all this financial destruction -- and we will."

For at least one day, though, investors had a reason to cheer. They piled into stocks after European governments emerged from a series of emergency weekend meetings to pledge guarantees for interbank lending and establish equity stakes in battered financial institutions.

Today, the U.S. government is expected to reveal details of its own plan -- first announced in broad form Friday -- to take equity positions in U.S. banks and other measures to shore up the nation's troubled financial system. Details that leaked out Monday night hinted at a European-style approach involving stronger protections, which could provide another boost for stock prices today.

On Monday, the Dow rocketed 936.42 points, or 11.1%, to 9,387.61, erasing half of last week's 18% loss. That almost doubled the widely watched average's previous one-day record gain of 499 points and marked its biggest percentage increase since the depths of the Great Depression in 1933 -- even topping its 10.2% gain two days after the infamous Black Monday crash of 1987.

On the New York Stock Exchange, winners trounced losers 19 to 1.

The rally was "an upward thrust of massive proportion that indicates to me that the market has had a huge dose of oxygen," said David Kotok, chief investment officer of money manager Cumberland Advisors in Vineland, N.J. "It's likely the market will be volatile but will head higher for the rest of the year."

Since its low during Friday's trading session, the Dow has rebounded more than 1,500 points. That has prompted some analysts to conclude that the market finally is nearing the bottom, the point where all the sellers have gotten out and buyers move in, setting the stage for a sustained advance.

Those buyers, said Tony Dwyer, market strategist at FTN Midwest Securities in New York, include so-called short sellers who are buying back stock to cover bearish bets, day traders and other momentum players, and the "Oh my God I missed it" investors who thought about buying last week but waited.

Other market watchers, however, echoed King's concern that the rally could be little more than a one- or two-day affair.

Throughout the housing crisis and credit crunch that began last year, the market has had several explosive one-day rallies, only to see them overwhelmed by renewed waves of selling when problems in the financial system and the economy proved intractable.

The latest episode occurred barely two weeks ago, when the Dow jumped 485 points the day after a record-setting 777-point collapse. The blue-chip index then plummeted almost 2,400 points over the next eight days.

Beyond that, many experts believe that the beleaguered credit markets -- not the volatile stock market -- are the real litmus test of financial health in the current crisis.

The credit markets have gone into a deep freeze as banks have become wary of lending to one another as well as to businesses and consumers. Economists fret that the breakdown in the flow of credit is putting the clamps on business and consumer spending and pushing the economy into recession.

On Monday, interbank lending rates eased a bit in Europe but remained extraordinarily high. The U.S. Treasury debt market was closed for the Columbus Day holiday, so a key test of the financial markets' reaction to the latest bank rescue plans was deferred to today.

"The essential problems in the market are with the credit market," said **Joe Saluzzi**, co-head of equity trading at **Themis Trading** in Chatham, N.J. "The stock market is an irrational beast that goes on through the day playing off fear and emotion."

Experts also pointed out that markets often "retest" their lows. After the initial euphoria subsides, stock prices may retreat until investors are convinced that economic and financial conditions truly are brightening.

And it should be noted that the Dow remains almost 34% below the all-time closing high of 14,164.53 it reached a year ago last week.

With the exception of two minor bouts of selling Monday, the Dow rose steadily through much of the day and closed just off its high. And by settling above 9,000, it crossed an important psychological threshold.

Twenty-nine of the 30 Dow stocks were up, as were all 10 industry groups in the Standard & Poor's 500 index, which gained 104.13 points, or 11.6%, to 1,003.35.

Energy stocks bounded 18.5%, thanks in part to a \$3.49 jump in oil prices, to \$81.19 a barrel. Financial shares and economically sensitive stocks each jumped more than 10%.

Technology shares also rallied strongly, with the tech-heavy Nasdaq composite adding 194.74 points, or 11.8%, to 1,844.25.

The Dow Jones Wilshire 5,000, a broad measure of the entire stock market, gained \$1.2 trillion in value, although it's still down \$2.1 trillion this month and \$7.1 trillion since its high a year ago.

Wall Street got both a literal and psychological lift when Morgan Stanley closed a deal for Japanese bank Mitsubishi UFJ to invest \$9 billion in the beaten-down investment bank. Morgan shares rocketed almost 87% to \$18.10.

The capital injection increases the likelihood that Morgan will be able to remain independent and at least temporarily erases worries about another storied Wall Street institution being swept away by the financial crisis.

Though the efforts of multiple governments fell short of the unified global approach many had hoped for, investors were encouraged by the idea of injecting capital directly into banks, which they believe would fortify the institutions far more than simply having governments buy their troubled loans.

"The latest moves have met the market's approval, which is something the other moves couldn't do," said Jack Ablin, chief investment officer of Harris Private Bank in Chicago. "It feels great to be able to watch the market and see it go up substantially."

walter.hamilton@latimes.com