

OCTOBER 14, 2008

## **Dow Takes Giant Leap as Bailouts Snap Gloom**

By [E.S. BROWNING](#) and [ANNELENA LOBB](#)

Last week's gloom turned into euphoria as investors sent the Dow Jones Industrial Average up 11%, the biggest one-day gain since 1933. It was the fifth-largest percentage gain ever, and it came immediately after an 18% weekly decline, the worst such drop in the Dow's 112-year history.



### **Bright Monday at the Markets**

Stocks rallied Monday, snapping a brutal losing streak after governments around the world took action to shore up the global financial system.

The head-snapping shift in sentiment, spurred by global plans for governments to rescue banks through direct capital injections, left investors debating whether this marked the end of the past year's frightening bear market, or just a temporary respite.

History tells a mixed story of rallies like Monday's. Of the five past one-day gains of 10% or more, two marked the end of bear markets, in 1987 and 1933. But three -- in 1929, 1931 and 1932 -- proved short-lived, and were followed by further declines. Because of that, market historians were reluctant to make definitive judgments about the one-day event.

"We don't know yet whether the bear market is over, but we do know about the medium term," says Phil Roth, chief technical market analyst at Wall Street brokerage firm Miller Tabak + Co. "This is a big clean-out, so we will get some recovery here now."

"People can say, 'Whew, we survived the financial crisis.' But then we have the issue of the recession, and we don't know how deep that will be," he says.

## Big Days | Ten biggest percentage gains in the Dow Jones Industrial Average

DATE	CLOSE	POINT CHANGE	PCT. CHANGE
March 15, 1933	62.10	8.26	15.34%
Oct. 6, 1931	99.34	12.86	14.87
Oct. 30, 1929	258.47	28.40	12.34
Sept. 21, 1932	75.16	7.67	11.36
<b>Oct. 13, 2008</b>	<b>9387.61</b>	<b>936.42</b>	<b>11.08</b>
Oct. 21, 1987	2027.85	186.84	10.15
Aug. 3, 1932	58.22	5.06	9.52
Feb. 11, 1932	78.60	6.80	9.47
Nov. 14, 1929	217.28	18.59	9.36
Dec. 18, 1931	80.69	6.90	9.35

Source: WSJ Market Data Group

The Dow surged 936.42 points to 9387.61, its largest one-day point gain ever. Monday's session ended eight consecutive trading days of losses, and wiped out almost all the blue-chip index's losses from the last three days of last week. The Dow finished just below Tuesday's close.

Even so, the Dow remains down 34% from its record 14164.53, hit Oct. 9, 2007, and down 13% in October alone. It is at a level it first reached in January 1999.

As Wall Street veterans tried to figure out what the day meant, they had to pull out their history books. For most of the day, it looked like the biggest one-day rally since Oct. 21, 1987 -- just after the crash. But after a late-day 300-point surge, Monday's gain surpassed that 1987 rally.

Some noted that the heavy buying occurred on Columbus Day, when the main U.S. bond markets were closed. That meant that investors couldn't get a clear idea of how the surge would affect the debt markets, which have been behind much of the financial trouble. And while the price-swing was enormous, total trading volume of New York Stock Exchange stocks was below average for this volatile month. At 7.12 billion shares, it nevertheless was the 15th-heaviest trading day ever.

Investors got more good news after trading ended. Word surfaced that the Bush administration's plan would include investing roughly \$250 billion in banks, providing guarantees of bank debt, and increasing the insurance on certain bank deposits, according to people familiar with the plans. Bank-rescue plans unveiled Monday in Europe helped lift the U.S. stock market. In Asia Tuesday morning, Tokyo's Nikkei Stock Average was up 12% in early trading, after being closed for a holiday Monday.

## A Stock Surge and a Sigh of Relief

The Dow gains more than 900 points...

Dow Jones Industrial Average



And some of the jitters ease, for one day at least

Chicago Board Options Exchange volatility index



Sources: WSJ Market Data Group; Thomson Reuters

There were some signs around the globe of relief in bond markets as well.

European bond markets were open on Monday. Investors there reacted by selling short-term, ultrasafe bonds and moving back into stocks, reversing the flight to the relative safety of government bonds that has been underway for weeks. German government bonds that mature in two years fell in price, pushing the yield up 0.13 percentage point to 3.18%.

The futures market where investors bet on U.S. Treasury bonds was also open. Trading there suggested that investors expect a similar decline in price and rise in yield for short-term Treasury bills and longer-term Treasury bonds on Tuesday. The price of a 10-year Treasury note futures contract fell to its lowest level since early August, according to Optima Investment Research.

There also were signs that banks' fears of lending to one another may begin to abate. The cost of futures contracts that correlate to the market rate at which banks lend to one another -- the London interbank offered rate, or Libor -- suggested that traders believe Libor will come down, another sign of relief. Three-month sterling Libor fell slightly on Monday, suggesting that other dollar-based bank-lending rates may decline on Tuesday.

During last week's stock selloff, the market tumbled during the last hour of trading nearly every day. But on Monday, stocks soared at the end of the day. **Joseph Saluzzi**, co-head of stock trading at **Themis Trading**, says some investors watched the market rise all day, hoping for a decline so they could buy in more cheaply. But when that never happened, they feared missing out on the big rally and rushed to buy stocks.

In addition, some large institutions, such as index funds, have a policy of making their trades at day's end, which can lead to exaggerated late moves.

Other investors stepped back late in the day. Tom O'Halloran, manager of the \$948 million Lord Abbett Developing Growth fund, began placing buy orders as soon as he arrived at his Jersey City, N.J., office. He filled about a third of his buy orders in the morning in the small emerging-markets, technology and energy names his fund focuses on, but then stopped as the market moved up. He added to positions in Maryland-based software firm Vocus Inc. and Houston-based Complete Production Services Inc.

By afternoon, Mr. O'Halloran began selling out of concern that some stocks were becoming too pricey. This included San Diego medical-device maker NuVasive Inc. and Las Vegas leisure company Allegiant Travel Co., which was up 23% on Monday.

"The levels of fear in the marketplace, combined with continued efforts on the parts of policy makers to ease the credit crisis, were the ingredients for the very powerful rally today," he says. "There was such extreme pessimism and fear at the end of the week, that the market was set up for a big rally" on Monday.

One surprise: Banking stocks, which had been among the most beaten down, didn't rise as much as the overall market. That was partly because many of them had risen strongly Friday on expectations of a global bailout program, despite the broad-market decline. The banks' failure to keep up on Monday also reflected continued concerns about their strength.

The big winners on Monday were stocks tied to economic growth, which suggests that investors believe any recession will be relatively short. Energy companies were up 16%, basic-materials stocks such as mining companies were up 14%, and technology stocks were up nearly 12%. Industrial commodities, which had been suffering amid recession worries, staged a comeback. Copper futures jumped 8% in New York, the biggest percentage gain since 2006. Copper futures remained 43% below their July record, however.

Crude-oil futures jumped 4.5% to \$81.19 a barrel, as gasoline, heating oil and natural gas futures also rose. Oil futures remained down 44% from their July record.

Gold futures, a place of refuge lately, fell, but not heavily, reflecting uncertainty about how long the rebound would last. They were down 1.9% to \$838.90 an ounce.

Many of last week's most battered stocks soared Monday. Morgan Stanley rose 87% after it closed on a \$9 billion investment from Mitsubishi UFJ Financial Group.

Central banks acted in unison on Monday to help ease one key market strain -- the demand for dollars by banks. Currency-swap arrangements between the U.S. Federal Reserve and the Bank of England, the European Central Bank and the Swiss National Bank were altered to "accommodate whatever quantity of U.S. dollar funding is demanded," according to a joint statement.

"When all the fixed-income people come back and play, we'll see if we can maintain the rally," says Jason Weisberg, a trader with Seaport Securities.

*—Liz Rappaport, Diya Gullapalli, David Gaffen and Mark Gongloff contributed to this article.*