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TRACKING THE MARKET AND ECONOMIC TRENDS THAT SHAPE YOUR FINANCES.

If stocks can't make a stand here, look out below

October 22, 2008

At least when the credit crunch was worsening on every level, the stock market had a good excuse for selling off day after day.

So what would the excuse be for today's market rout, which pulled the Dow Jones industrials down 514.45 points, or 5.7%, to 8,519.21?

Some lousy corporate earnings reports?

"With a market move of this size, you'd expect to see some *market-moving* news -- and not just that we're in a recession," said Marc Pado, U.S. strategist at Cantor Fitzgerald. Yes, the economy is sinking, but "I thought everybody knew that," he says.

Credit conditions improved for an eighth straight day, as measured by the rates banks charge one another for short-term loans. But the stock market paid no notice.

The benefit from the initial easing of the credit crisis "has come and gone," said Ryan Larson, senior equity trader at Voyageur Asset Management in Chicago.

Bottoming process?

Dow Jones industrial average, daily closes

Source: Bloomberg News

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Instead, disappointing profit reports from Boeing Co., Merck & Co., Kimberly-Clark Corp. and other big names helped set the tone for the day.

And another dive in raw materials prices undercut commodity-related stocks. Energy issues were the biggest losers in the Standard & Poor's 500 index, falling 10.4% on average.

Investors still are trying to figure out how deep a recession to price into the market, Larson says. "This is going to be a process. There's really nothing new to say," he says.

It's also possible that Democratic presidential contender Barack Obama's rise in the polls is upsetting some investors, although there isn't much chatter about that among market pundits.

Some veteran analysts say the market is being tyrannized by computerized trading programs that can steamroll share prices, particularly in the final hour of the trading session.

"The programs are exacerbating volatility," complains **Joe Saluzzi,** a partner at **Themis Trading** in Chatham, N.J. He thinks it's time for regulators to slap curbs on the machines.

Many pros still believe the market is trying to carve out at least a near-term bottom here. The Dow today held above its five-year closing low of 8,451.19 reached Oct. 10.

The S&P 500 and the Nasdaq composite fell below their recent closing lows, but held above the intraday lows on Oct. 10 (which for the S&P 500 was 840, compared with today's close of 896.78).

So, to chart-watchers (I know, voodoo to many investors), this still fits the classic pattern of a "retest" of the recent lows. If the market can bounce from here, it will strengthen the case that the selling is petering out.

And what happens if the indexes sink through those Oct. 10 intraday lows?

"If we blow through those, you're going to see some really ugly stuff coming at you," Larson warns.

Just what everybody wanted to hear.