



Market Dispatches 9/29/2008 7:50 PM ET

## Dow drops 778 as bailout bill fails

Panic selling sets in after the House narrowly rejects the \$700 billion plan to bolster the financial system. Energy prices fall and lobber energy shares. Citigroup buys Wachovia assets FDIC assistance. Apple leads tech shares lower.

By [Charley Blaine and Elizabeth Strott](#)

Stocks suffered a massive sell-off today after the House of Representatives narrowly failed to approve a \$700-billion rescue plan for the U.S. financial system.

The **Dow Jones industrials** fell 778 points, or 7%, to 10,365. It was the biggest point loss ever for the blue-chip index and the biggest percentage loss since Sept. 17, 2001, the first day of trading after the Sept. 11, 2001, terror attacks.

The **Standard & Poor's 500 Index** suffered its biggest one-day point loss and its biggest percentage loss since the October 1987 market crash.

The Dow and S&P 500 closes were their worst since June 2005.

The **Nasdaq Composite Index** slumped 200 points, or 9.1%, to 1,984, its first close under 2,000 since September 2004.

The selling came at the end of a long day that saw weak stock markets around the world. European markets slumped after banking authorities several countries were forced to shore up failing banks.

Traders booed on the floor of the New York Stock Exchange as the closing bell rang.

The stock market reflect bigger problems in credit markets where banks didn't want to lend each other. Traders repeated stories about businessmen who said they might not be able to make payrolls on Wednesday unless banks were willing to lend money on even a 24-hour basis.

"There's a monster amount of fear out there. This is global contagion. It's no longer just the United States," Joe Saluzzi, co-manager of trading at Themis Trading in Chatham, N.J., told Reuters.

Congress has to come up with a new plan, "or the damage is unimaginable," Henry Herrmann, CEO of mutual fund company Waddell & Reed, told Bloomberg News.

### The Dow's biggest losses

Date	Dow close	Chg.	% chg.
September 29, 2001	10,365.45	-777.68	-6.98
September 17, 2001	8,920.70	-684.81	-7.13
April 14, 2000	10,305.77	-617.78	-5.66
October 27, 1997	7,161.15	-554.26	-7.18
August 31, 1998	7,539.07	-512.61	-6.37
October 19, 1987	1,738.74	-508.00	-22.61
September 15, 2008	10,917.51	-504.48	-4.42
September 17, 2008	10,609.66	-449.36	-4.06
March 12, 2001	10,208.25	-436.37	-4.10
February 27, 2007	12,216.24	-416.02	-3.29

### A panic sell-off

The sell-off was a clear case of panic, something not seen since the 1987 crash and 9/11, set off by complete surprise by traders and investors that the bill, crafted over the weekend, would fail.

The only source of strength in the market was gold and short-term Treasury bills. Gold closed up \$5.90 or 0.7% to \$894.40 in New York. The yield on the 30-day Treasury bill fell to 0.07% as investors were far more interested in simple safety than actual return.

Crude oil, meanwhile, fell 9.8% to \$96.37 a barrel in New York on expectations that a slowing U.S. economy would depress demand for gasoline and other fuels.

No one on Wall Street has any clue where the market will bottom. The first order of business is to get a rescue plan passed that gives financial markets around the world some confidence.

Expect more volatility in U.S. markets as well, although volume is likely to be lower because of the Rosh Hashanah, the Jewish New Year. Asian markets, which fell on Monday, are likely to be sharply weaker on Tuesday, as will markets in Europe.

### Energy prices -- New York close

	Mon.	Fri.	Chg.	Month chg.	YTD chg.
Crude oil (NYMEX) (per barrel)	\$96.37	\$106.89	-\$10.52	-16.53%	0.41%
Heating oil (per gallon)	\$2.7604	\$2.9949	-\$0.2345	-13.25%	4.19%
Natural gas (per million BTU)	\$7.2210	\$7.6280	-\$0.4070	-9.09%	-3.50%
Unleaded gasoline (per gallon)	\$2.3970	\$2.6651	-\$0.2681	-20.36%	-3.77%

## Financial stocks slammed; Apple's worst loss since 2001

Financial stocks were hurt the most in the selling, with the **Select Sector SPDR-Financial** ([XLF](#), [news](#), [msgs](#)) exchange-traded fund, which tracks the financial stocks in the S&P 500, falling 13% to \$18.57. All 84 stocks in the group were lower.

Hardest hit: **Wachovia** ([WB](#), [news](#), [msgs](#)), down 81.6% to \$1.84 after the company agreed to sell its banking operations to **Citigroup** ([C](#), [news](#), [msgs](#)).

Citigroup fell 11.9% to \$17.75. **Bank of America** ([BAC](#), [news](#), [msgs](#)) dropped 17.6% to \$30.25. **American Express** ([AXP](#), [news](#), [msgs](#)) was the Dow loser on the day, down 17.6% to \$32.55.

### Stock Chart (Year)

Apple



Technology stocks were seriously battered. **Apple** ([AAPL](#), [news](#), [msgs](#)) fell 17.9% to \$105.26, its percentage decline since July 2001.

The maker of the iPod media player, iPhone and Mac computers was cut to "equal weight" from "overweight" by Morgan Stanley analysts, who predicted a 10% slump in the shares and said the stock's price doesn't yet reflect slowing demand.

**Qualcomm** ([QCOM](#), [news](#), [msgs](#)), fell 13% to \$39.88, and **Google** ([GOOG](#), [news](#), [msgs](#)) dropped down 11.6% to \$381. The three stocks were worth 47 points of the Nasdaq-100's decline.

All 30 Dow stocks were lower on the day. The best Dow performer today was **Coca-Cola** ([KO](#), [news](#), [msgs](#)), and it was down 2.8% to \$51.03. None of the stocks in the **Nasdaq-100 Index** ([\\$NDX.X](#)) was ahead on the day.

But exactly one S&P 500 stock was higher: **Campbell Soup** ([CPP](#), [news](#), [msgs](#)), up 0.3% to \$37.75.

### Another vote by Thursday?

The sell-off was triggered by the House vote on the Bush administration's rescue plan for the financial system. The rescue bill failed by a vote of 207 to 226; 218 were needed for passage. About 60% of Democrats voted for the bill; only 33% of Republicans supported the bill -- a repudiation of President Bush and Treasury Secretary Hank Paulson.

A new version of the bill is likely to be crafted in the next few days, but no one expects any kind of a vote before Thursday.

The outcome of the vote produced predictable blame games. The Republicans blamed House Speaker Nancy Pelosi for a partisan speech before the vote. The Democrats blamed the Republicans for putting ideology before country.

What looks like happened was that the House leaders brought the bill to a vote hoping enough members -- Democrats and Republicans -- would understand the seriousness of the situation and vote yes.

House members can vote on a bill within a 15-minute window. It was clear before the time was up that the legislation would fail, and stocks, which had opened lower, went into a free-fall.

President Bush and Paulson said they were disappointed in the vote. A number of Republicans and Democrats promised to meet in the next few days.

### No easing in credit markets

Here's how you can tell how bad credit markets were today.

The London Interbank Offered Rate, an interest rate widely viewed as a key indicator of anxiety in credit markets, jumped to 5.22%, the biggest jump since June, indicating that the feds' rescue plan is not having the desired effect in easing the credit markets.

The increase in Libor shows a growing unwillingness among banks to lend to each other.

The three-month Treasury bill, which is often considered to be the safest short-term investment, fell to 0.45% from 0.87% on Friday.

The TED spread -- the difference between the three-month Libor and the three-month Treasury bill -- was 3.18%, indicating continued tightening in the lending market.

Last week, the TED spread reached 3.37%, the highest level since 1982. Three weeks ago, the TED spread was only 1.04%.

"Frayed nerves take time to heal, which means that fear and anxiety will remain a major part of the pricing of financial assets," Miller, Tabak Chief Bond Strategist Tony Crescenzi wrote in a note to clients. "It is human nature for frayed nerves to take time to heal after a shock -- healing of any kind is more a process than an event."

### More details of Wachovia deal

Wachovia did not fail, the FDIC stated, and all of its depositors are protected. Citi will also absorb up to \$42 billion in losses of Wachovia's \$312 billion pool of loans. The FDIC will absorb the remainder of the losses, the agency said.

Wachovia, which has been slammed by the mortgage mess, had been looking for a buyer for the past several days. Shares of Wachovia had fallen \$9.14, or 91.4%, to 86 cents per share in pre-open trading, but the stock has not yet opened for trading. Citi shares were up 19 cents, or 0.9%, to \$20.34.

Under terms of the Citigroup-Wachovia deal, Citigroup will buy most of Wachovia, including five depository institutions. Citi will also assume Wachovia's senior and subordinated debt.

**Stock Chart (Year)**

**Wachovia**



Citi will pay Wachovia about \$2.16 billion in stock and will assume about \$53 billion in Wachovia senior and subordinated debt; the bank expects a \$3.7 billion pre-tax charge from severance over the next four years.

Citigroup said it will cut its dividend to 16 cents per share. The bank also plans to raise \$10 billion in common shares.

Wachovia will remain a public company with two main subsidiaries; it will keep its AG Edwards retail brokerage business, along with its Evergreen asset-management division.

Wachovia's move comes just days after **Washington Mutual** ([WM](#), [news](#), [msgs](#)) was seized by the government and its assets were sold to **JPMorgan Chase** ([JPM](#), [news](#), [msgs](#)). On Friday, JPMorgan said Wachovia would take a \$31 billion write-down on the loans it acquired from WaMu.

Short hits from the markets -- 4 p.m.

	Mon.	Fri.	Chg.	Month chg.	YTD chg.
<b>Treasuries</b>					
13-week Treasury bill	0.450%	0.830%	-0.380	-73.37%	-85.67%
5-year Treasury note yield	2.723%	3.020%	-0.297	-11.85%	-21.19%
10-year Treasury note yield	3.632%	3.827%	-0.195	-4.75%	-9.99%
30-year Treasury bond yield	4.161%	4.357%	-0.196	-5.69%	-6.68%
<b>Currencies</b>					
U.S. Dollar Index	77.530	77.110	0.420	0.04%	1.09%
British pound in dollars	\$1.8025	\$1.8031	-0.0006	-1.05%	-9.39%
Dollar in British pounds	£0.5548	£0.5546	0.0002	1.06%	10.36%
Euro in dollars	\$1.4403	\$1.4418	-0.0015	-1.84%	-1.45%
Dollar in euros	€ 0.6943	€ 0.6936	0.0007	1.88%	1.48%
Dollar in yen	103.78	103.97	-0.19	-4.59%	-7.22%
Canadian dollar in U.S. dollars	\$0.954	\$0.957	-\$0.0022	1.48%	-3.88%
U.S. dollar in Canadian dollars	\$1.048	\$1.046	\$0.0013	-1.53%	3.97%
<b>Commodities</b>					
Gold	\$894.40	\$888.50	\$5.90	7.09%	6.73%
Copper	\$2.9065	\$3.0745	-\$0.17	-14.19%	-4.42%
Silver	\$13.0250	\$13.0950	-\$0.07	-4.98%	-12.70%
Corn	\$5.1300	\$5.1300	-\$0.30	-9.72%	12.62%
Crude oil (NYMEX) (per barrel)	\$96.37	\$106.89	-\$10.52	-16.53%	0.41%

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