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Stocks Tumble on Consumer Weakness; Dow Down 2.5%

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The trouble began the moment the opening bell sounded and ended, more than six hours later, with a stock market plunge that left frazzled traders biting their nails.

No sooner did trading start on Friday morning than a rush of erroneous orders overwhelmed the computers at the [New York Stock Exchange](#). By the time the day was over, the Dow Jones industrial average had plunged nearly 250 points, or 2.5 percent, in its sharpest sell-off since July.

The Standard and Poor's 500-stock index fell even more — 2.8 percent — to close out October with its first monthly loss since February. The Nasdaq composite index also tumbled.

The sudden decline, coming only days after the Dow was flying above 10,000, left many traders asking the same question: After a stunning seven-month rally, is the stock market finally running out of steam?

Many economic and financial worries, from the troubles of hard-pressed consumers to the travails of [Citigroup](#), dragged financial shares lower through the day. The losses more than wiped out the market's gains from the day before, when a government report seemed to suggest that the nation's longest [recession](#) since World War II might be ending.

But even though the worst may be over for the economy, many investors now fear that any recovery will be slow and that the recent optimism in the markets may turn out to have been misplaced. Even after the decline on Friday, the broad market was still up nearly 15 percent this year.

"The market needs and demands to see evidence that things are getting better, not just that they may be getting better," said Anthony Chan, chief economist for [JPMorgan's](#) private wealth management. "We need to beat

expectations before the markets raise eyebrows and say it's safe to get back into the water.”

The Dow industrials fell 249.85 points, to 9,712.73. The S. & P. 500 was off 29.92 points, or 2.8 percent, to 1,036.18. The Nasdaq declined 52.44 points, or 2.5 percent, to 2,045.11.

The day began with unsettling news from the Commerce Department. A report on consumer spending showed the largest drop in nine months, a dreary data point that met Wall Street expectations but reinforced the notion that the recovery of the United States economy would be slow and halting. The decline was tied to the end of the government's cash-for-clunkers program, which gave car buyers thousands of dollars in vouchers for the purchase of new vehicles. Overall spending fell 0.5 percent in September, and personal income levels remained flat because of higher unemployment rates and decreases in wages.

Big banks like Citigroup, which have rallied strongly this year as the [financial crisis](#) receded, tumbled sharply. Banking shares fell nearly 5 percent. Shares of Citigroup dropped 22 cents, or 5.1 percent, to \$4.09, after an analyst raised concerns that the company might have to write off a big portion of nearly \$38 billion of tax benefits.

“People are concerned about the real earnings prospects of these companies,” said Meredith A. Whitney, a financial services analyst. “As you get closer to 2010, a recovery isn't in sight.”

Investors fear banks' losses on loans will continue to worsen, particularly if unemployment keeps rising. A report due next week is expected to show that the jobless rate might be close to 10 percent. Others worry how banks will make up lost revenue as Washington cracks down on credit card penalties and debit card overdraft fees.

Questions about the ability of Citigroup to take advantage of certain tax benefits have swirled around the company for months. Tax accounting experts say that federal securities regulators have demanded that financial companies start marking down the value of those benefits if their profit outlook remains dim.

Citigroup's financial position would be weakened if it were forced to take a large write-down. Other tax issues have also imperiled Citigroup's plans to repay \$45 billion of bailout funds. A Citigroup spokesman played down the worries, but declined to comment on the bank's plans.

As banks and other companies confront the realities of their balance sheets, investors are looking toward the holiday season and beyond for relief. But some say they think a market pullback is inevitable.

“The market is focusing on the glass is half empty,” said Scott E. Marcouiller, a senior equity market strategist at [Wells Fargo](#) Advisors in St. Louis. “We just need to let some of the air out of the balloon.”

As investors fled stocks, bond prices rose. The benchmark 10-year [Treasury](#) note rose 31/32, to 102. The yield fell to 3.38 percent from 3.50 percent on Thursday.

Eric Dash contributed reporting.

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