

What a Week: World of Hurt

By **Liz Rappaport**

The stock market lost its footing this week, and Goldilocks seemed to fall into a ditch.

After more than seven months of rallying, the U.S. stock market experienced a panic-ridden day -- Tuesday -- not seen since the immediate aftermath of the Sept. 11, 2001, terrorist attacks. The three major indices had their worst week since March 2003.

The main culprit? China's stock market. Its near-130% surge last year was one of the prime examples of investors ramping up leverage to take on more risk.

Investors awakened Tuesday to an 8.8% plunge in China's Shanghai Composite index, and the selling began. Margin calls kicked in and begat more selling. As the week progressed, the vehicles that offered investors the opportunity for those leveraged bets, such as the Japanese yen carry trade (borrowing yen at a paltry 0.5% and investing in higher-yielding assets elsewhere), unwound as volatility increased.

After choppy sessions following Tuesday's rout, the **Dow Jones Industrial Average** closed down 4.2% for the week, 1% on Friday alone, to 12,114.10. The **S&P 500** slid 4.4% on the week and 1.1% Friday, and the **Nasdaq Composite** fell 5.8% this week and 1.5% Friday, closing at 2368.00.

The price of crude oil jumped 1.2% this week to \$61.64 per barrel, while gold slid 6.4% to \$644.10 per ounce. The Treasury bond market rallied sharply as investors took the "flight to safety" route. The yield on the 10-year note fell to 4.51% Friday from 4.68% last week. The value of the yen rose 4% vs. the dollar.

In overseas markets, the Shanghai Composite recaptured some of its losses, sliding just 6.8% on the week. Japan's Nikkei 225 slid 5.3%. The weakness overseas wasn't limited to Asia. The broad MSCI Emerging Markets Index fell 8.1% for the week.

Within the U.S., stock market declines were broad-based even as some investors started to look for bargains. Traders mentioned dipping into housing stocks and even some of the subprime mortgage lenders, hoping the worst was over. But given that the indices ended Friday's trading session at the day's lows, hopes for a stock market bottom were dim.

"Never on a Friday," says Jeffrey Saut, chief equities strategist at Raymond James & Co. "Markets never bottom on a Friday after a week like this. Participants go home and brood about it." Saut believes there may be a "tradeable low" on Monday or Tuesday, but that would just lead to a three-to-five-day "throwback rally."

Overall, "the consternation isn't over," he says. "The market had a heart attack, and a heart attack patient doesn't get right off the gurney and run the 100-yard dash. The market shouldn't either."