

Rutland Herald

This is a printer friendly version of an article from www.rutlandherald.com
To print this article open the file menu and choose Print.

[Back](#)

Article published Oct 5, 2008

Financial ground might shaking, but sky isn't falling

By SUSUAN TOMPOR Detroit Free Press

No doubt, many of us are still freaking out about watching the Dow tumble nearly 800 points on Monday after the U.S. House stunned Wall Street and put the brakes a \$700 billion bailout.

Who wouldn't be in shock? But it could be reassuring to do one thing today. Maybe, take a drive — or even a walk — to the bank. Get a little money, not a lot, maybe \$25.

Did the bank reject your ATM? No? Well then, we're not watching a complete financial collapse. We still have safety nets.

Sure, the county's in a financial mess. But that wasn't going to change overnight, even if Washington got on the fast track to buy up all those toxic mortgages.

And shouldn't we expect Congress to work overtime to come up with something new, if a bailout is crucial to the country's financial health? Shouldn't somebody be able to figure out how to build a better bailout?

Wall Street went ballistic after the U.S. House voted 228 to 205 to reject the financial-rescue plan that was designed to deal with bad mortgage debt and unfreeze credit markets.

The Dow Jones industrial average fell 777.68 points on Monday — or 6.98 percent — to close at 10,365.45.

No one expected the deal to fall apart. But this is a hot-and-heavy election year.

Who could vote against it? Well, some might ask who could vote for it when Main Street consumers screamed so loudly against wasting their money to bail out Wall Street bankers.

Yet, it is too early to rule out any deal in the future.

Election Day continues to be Nov. 4.

And if you think the phone rang off the hook in Washington about nasty CEO pay, well, wait until people start seeing their 401(k) plans melt.

"When they see the impact, they're going to be very angry," said Bob Bilkie, president of Sigma Investment Counselors in Southfield, Mich.

"This makes the Republicans look really bad," Bilkie said.

We were all looking at disheartening losses, some worse than others, even before Monday's

meltdown.

On average, U.S. stock funds lost 16.4 percent for this year through Friday, according to the latest data from Morningstar. About 97 percent of mutual funds that invest in U.S. stocks lost money this year through Friday.

On average, investment-grade U.S. bond funds lost 2.47 percent for the year through Friday, according to Morningstar.

By comparison, similar bond funds gained 2.73 percent for roughly the first nine months of 2007 and U.S. stock funds gained 9.78 percent for the same time last year, according to Morningstar.

David Sowerby, portfolio manager for Loomis, Sayles & Co. in Bloomfield Hills, Mich., said after the House vote that he expected that ultimately there would be a deal.

"Why can't you go back and re-write the draft and have a re-vote?" he said.

Let's not forget that some well-respected economists did not like this thing as it was designed anyway.

Joseph E. Stiglitz, who won the Nobel Prize in Economics in 2001, wrote "A Better Bailout" in "The Nation."

He suggested that banks were about to get a free ride at the taxpayers' expense.

"No private firm was willing to buy these toxic mortgages at what the seller thought was a reasonable price," he wrote.

"They finally found a sucker who would take them off their hands — called the American taxpayer."

Yet what if a deal isn't immediate? Are we were headed for the next Great Depression?

Not going to happen, predicted Patrick Anderson, CEO of the Lansing, Mich.-based Anderson Economic Group LLC.

Anderson, who is against a bailout, calls all the talk of the next Great Depression overheated rhetoric. He says interest rates remain low and enable borrowers, and banks have FDIC insurance, as well.

"This is nowhere near the biggest crisis since the Great Depression," Anderson said.

Going forward, you can expect supporters of a bail out to work harder to explain why giving relief to credit markets matters to everyday consumers.

"Clearly, not enough of the dots were connected between Wall Street and Main Street," said Diane Swonk, chief economist for Mesirow Financial in Chicago.

"The people on Main Street will understand the moment they can't get a car anymore," said Sreedhar T. Bharath, assistant professor of finance at the Stephen M. Ross School of Business at the University of Michigan.

Mark Zandi, chief economist and cofounder of Moody's Economy.com, said he'd expect a significant recession, again whether the Emergency Economic Stabilization Act passed or not.

"The financial panic will restrict credit further, hit confidence and undermine household wealth," Zandi said in an e-mail.

But the panic would intensify and the recession would be much longer and more severe, he said, without a deal.

Dana Johnson, Comerica's chief economist, predicts that many people would find it extremely hard, if not impossible, to get student loans, car loans or other types of loans if a way is not found to give credit markets some relief.

"The credit markets are not working at all well," he said.

Does he think Congress will agree to a bailout eventually?

"I assume it would," Johnson said, "because it must."
