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Anxiety rules the economy

Wall Street bank's collapse, bailout could be good sign, or lead to more pain

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THE COLUMBUS DISPATCH

Panic on Wall Street. Record oil prices. Falling dollar. Rising inflation. Slowing economy. Gold over \$1,000. Home foreclosures.

It's enough to make you feel helpless.

A historic bailout over the weekend of Bear Stearns, a Wall Street bank that manages money and makes trades for the market's biggest players, was the latest tremor to ripple through a troubled U.S. financial system.

The big question is this: Where do we go from here?

Daylight may not be too far ahead, said Ken Mayland, president of ClearView Economics near Cleveland.

"This has the feeling of a climatic event," Mayland said of the vaporization over the weekend of Bear Stearns, brought down by its investments in subprime mortgages. "When you look at past panics, they tend to end with a name quantity."

Not only that, but Mayland also said that most washout events lead to stock market upswings in three to six months. It happened in 1987, when the market crashed, giving up more than 20 percent of its value in one day. It happened again in 1998, when the failure of Long-Term Capital Management set off a panic.

Wall Street gave off some good signs yesterday, as stocks rebounded after starting the day with sharp declines. The Dow Jones industrial average finished up slightly, while the S&P 500 fell 0.9 percent.

Even so, James Coons, an economist and principal with J.W. Coons Advisors of Columbus, said he would like to believe that the demise of Bear Stearns will become a watershed moment, but he isn't convinced.

Over the weekend, with the backing of the Federal Reserve, JPMorgan Chase & Co. agreed to pay \$236.2 million in stock for Bear Stearns, or about 1 percent of what Bear Stearns was worth 16 days earlier.

"You don't know in real time that this is the event to mark" the low point, Coons said. "Who's to say we won't see a bigger failure? If there was any question before, we are in a full-blown crisis."

Mayland said it's important for most individuals to realize they are not players in the investment bank's collapse.

In Columbus, a handful of Bear Stearns employees manage hundreds of millions of dollars, most of it for institutional and high-net-worth individuals from a small Easton office.

New owner JPMorgan, the third-largest employer in central Ohio with more than 14,000 workers, expects little impact locally from its deal to buy the investment bank.

"As spectacular as these events are, they are narrowly felt," Mayland said. "This is mostly a New York City problem, a Wall Street problem. The problem is Merrill Lynch, Citigroup, Bear Stearns and the UBSs of the world.

"There are 8,533 banks in this country, and most of them are clean. All of these exotic, mortgage-backed securities, where most of the problems lie, they were engineered on Wall Street for (big) Wall Street-type investors."

Even if the stock market steadies itself and the financial system stays clear of other meltdowns, concerns still abound. Many people are worried about keeping their jobs and staying ahead of inflation.

That may take longer to unwind.

"I think the economy will get worse before it gets better," said Coons, who believes a recession is under way. "We've had two months of declining unemployment. I think that's just the beginning."

Consumers are being battered from a number of directions, said Jill Gianola, a Columbus fee-only financial planner. It doesn't help that the massive baby-boomer generation is in the middle of making important financial decisions about retirement.

"People are feeling a lack of control," Gianola said. "They're also thinking they should be doing something. Just watching it happen isn't very reassuring.

"Before, people still had wealth in their home. Now their stock portfolio is going down, and the value of their home may be diminishing. Now they feel doubly poor."

Given this, it's a good time to get back to basics, Gianola said. "Try to stuff a little extra money in a bank account. That can help you psychologically," she said. "That can help you weather a storm. Now is also a good time not to be overspending or maxing out a credit card. Hunker down."

Mayland, while acknowledging that things are a "godawful mess," said some encouragement can be found in the many measures that have been taken to pump up the economy, such as the Federal Reserve providing increased liquidity for lenders, and the federal government shipping out tax-rebate checks in the coming months.

"As things get worse, policymakers chip in to calm the waters," he said. "There is no need to stock up on ammo."

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