



AFTER THE PLUNGE

Market recovers a bit Exchanges see slight gains, operations at NYSE back on track, Fed chief hopeful. But volatility seen ahead.

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Propped up by some soothing words from Federal Reserve Chairman Ben Bernanke, stocks took a tiny step forward yesterday. But the market's future direction remains a mystery, experts said.

"It can easily go either way," said Alan Kral, who helps oversee \$750 million in stock and fixed income investments at Trevor, Stewart, Burton & Jacobsen Inc. in Manhattan. "The problems we were exposed to . . . [Tuesday] have not gone away."

The Dow Jones industrial average rose 0.43 percent, or 52.39 points, yesterday to close at 12,268.63. The broader Standard & Poor's 500 index and technology-laden Nasdaq composite index rose 0.56 percent and 0.34 percent, respectively. That was in contrast to Tuesday, when stocks suffered their biggest fall in four years, with the Dow plummeting a breathtaking 416 points, or 3.29 percent, to 12,216 on fears of a U.S. economic slowdown and signs that on a global scale investors were fleeing risk.

In another development, the New York Stock Exchange, which saw its new "hybrid" system of automated and human trading become overloaded Tuesday, said operations were back to normal. A person familiar with the situation said the backlog was caused by a computer glitch at Dow Jones, which calculates the Dow average and couldn't keep up with trading volume.

The backup at the NYSE occurred during the last hour of trading, when a lot of "program trading," or computerized trading of large baskets of stocks, occurs. Such trading is done by large institutional investors, including hedge funds, and are the most active players in the stock market. They account for about one-third of all volume on the NYSE, according to David Easthope, a senior analyst for Celent, a Boston-based financial research and consulting firm.

In testimony before Congress yesterday, Bernanke said financial markets appeared to be "working well" and there is a "reasonable possibility" the economy will strengthen by

midyear. His testimony followed a government report showing the economy grew by 2.2 percent in the fourth quarter of 2006, a weaker rate than had been estimated.

Pearl Kamer, chief economist for the Long Island Association, said she doesn't expect a recession but believes Bernanke is too optimistic. Because consumers are overextended with debt and housing prices haven't rebounded, growth will remain at a "subpar" 2 percent this year and perhaps into next, she said.

"I think the outlook is for continued volatility" in the markets, Kamer said. Any one development in the uncertain economy "can trigger massive changes ."

JJ Burns, chief investment officer at JJ Burns & Co., a Melville-based money management firm, said it could take months for stocks to recover from Tuesday's events. He said investment managers are becoming aware of the risks in their portfolios and need to reallocate funds.

"The market really suffered a bit of a heart attack," Burns said. "When you have a heart attack, you don't just get up ... [quickly] from bed."

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