'Fear and volatility' as stock market plunges Monday

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For Howard "Buddy" Goldman III, a wealth management adviser for Northwestern Mutual in Owings Mills, Monday started with a phone call from one of his clients, an elderly woman who'd been watching the news as the Dow Jones industrial average plummeted more than 1,000 points right after opening.

"We anticipated a call from her, and we settled her down," said Goldman, who sought to reassure her. "We have a very, very conservative portfolio for her."

All around Baltimore, investment advisers sought to calm worried clients and urge long-term investors to stand pat even as the stock market took investors on a stomach-churning ride.

Stocks regained much of that ground by midday but slid again in the afternoon, with the Dow Jones finishing down 585 points, or nearly 3.6 percent. The Standard & Poor's 500 index also fell sharply shortly after the opening bell, entering "correction" territory — Wall Street jargon for a drop of 10 percent or more from a recent peak — and finished down 3.9 percent.

The slump — part of a global wave of selling triggered by the slowdown in China — reflected uncertainty among investors over where to put their money when the world's second-largest economy is in a slide.

Investment experts cautioned long-term investors not to panic but to expect a rough ride in the near term as concerns continue about emerging markets, weak profit growth in many U.S. companies, and the potential for the Federal Reserve to raise interest rates by the end of the year.

"I think we're getting back to a time of fear and volatility in equity markets," said Adam Petryk, head of multi-asset and solutions at Legg Mason affiliate QS Investors. "Periods of volatility beget further volatility. ... Our recommendation is that folks try not to react or overreact to short-term market trends, and have a game plan."

Goldman and some associates spent a good part of the day "calling our clients before they could call us, to do a lot of hand-holding ... in case they were concerned. Most went through the financial crisis seven to eight years ago, and their accounts have all rebounded, so I think they understand the markets are going to go up and going to go down."

Heightened concern about the China slowdown already shook markets around the world Friday, driving the U.S. stock market sharply lower. The rout continued Monday as China's main stock index sank 8.5 percent.

China "very aggressively" built out its infrastructure in recent years, creating bubbles in some commodities that are now on their way down, said Rob Sharps, the lead portfolio manager for T. Rowe Price Group's large-cap growth strategy.

China has "already had a very meaningful impact on the economy as a whole," Sharps said. "It's a question of where it stabilizes."

Sharps said that T. Rowe Price was recommending investors with a short-term outlook stay away from stocks, while those with a longer-term outlook stay put. Longer-term investors could find some opportunity in buying, particularly in the technology or health care sectors.

But, he added, "I don't think this is the sort of thing that is a once-in-a-generation opportunity" to buy.

On Monday, U.S. treasury securities surged as investors bought less risky assets. But investors also saw opportunity, moving fast and early to snap up some bargains. That helped trim some of the market's earlier losses.

The U.S. market slide was broad. The 10 sectors in the S&P 500 headed lower, with energy stocks recording the biggest decline, 5.2 percent, amid a slump in the price of oil. The sector is down almost 25 percent this year.

Some investment advisers said the downturn could be an opportunity for some investors to trim their tax bills by selling at a loss, while reinvesting the money in the same sector.

"A market downturn like this, assuming it's short-lived, can be beneficial for investors," said Matt Goette, president and chief investment officer at financial advisory firm Black Diamond Financial in Towson.

He said long-term investors shouldn't pull back from emerging markets, either.

"International has been a relatively poor-performing asset class in the last five years, but these things are cyclical," he said. "We believe that emerging markets are a relatively good asset class to be in."

Stocks have been on a bull run for more than six years, after bottoming out in March 2009 in the aftermath of the financial crisis and the Great Recession.

Stocks kept climbing even as corporate earnings growth slowed. The price-earnings ratio for the S&P 500, a measure of how much investors are willing to pay for each dollar of company earnings, climbed as high as 17.2 in March. That was the highest level in at least a decade, according to data from FactSet.

Oil prices, commodities and the currencies of many developing countries also tumbled Monday on concerns that a sharp slowdown in China might hurt economic growth around the globe. Benchmark U.S. crude dropped $2.21 to $38.24 a barrel in New York, its first close below $40 since 2009.

Yet some economists said the stock market's slide shouldn't affect the overall U.S. economy, which is still recovering from the recession — as long as the downturn doesn't worsen significantly.

"One-day gyrations or one-week gyrations don't necessarily have an impact on the national or the local economy," said Richard Clinch, a Maryland-based economist for the Battelle Memorial Institute. "The question is, is this permanent?"

Clinch said that with employment climbing, the nation's economic outlook continued to be strong.

"The general consensus is the economy is charging along," he said.

But worries about a China-fueled global economic slump sent markets lower overseas.

Germany's DAX fell 4.7 percent, while the CAC-40 in France slid 5.4 percent. The FTSE 100 index of leading British shares dropped 4.7 percent.

In Asia, Japan's Nikkei experienced its worst one-day drop since in over two and a half years, falling 4.6 percent. Hong Kong's Hang Seng index fell 5.2 percent, Australia's S&P ASX/200 slid 4.1 percent and South Korea's Kospi lost 2.5 percent.

The Shanghai index suffered its biggest percentage decline since February 2007, with many China-listed companies falling the maximum 10 percent they are allowed in one day. The benchmark has lost all of its gains for 2015, though it is still more than 40 percent above its level a year ago.

Underlying the gloom in China is the growing conviction that policymakers and regulators may lack the means to stem the losses in that nation. The country is facing a slowdown in economic growth, the banking system is short of cash and investors are pulling money out of the country, experts note.

"The real risk is that things get out of hand in China, and that would feed back into the U.S.," said Alessandro Rebucci, an assistant professor who studies international finance at Johns Hopkins' Carey Business School.

Many U.S. companies, like Apple, which manufactures in China, are multinational and are exposed to that country's economy, he said.

But, Rebucci said, if investors didn't pull out of emerging markets last week "it's too late," and they should stay put. "China in five to 10 years is going go back on track and go above the value that we thought."

Baltimore Sun reporter Lorraine Mirabella and the Associated Press contributed to this article.

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