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Stocks Tumble After Fed Adds Liquidity

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By Madlen Read, AP Business Writer

Dow Fails to Hold Above 13,000; Fed's Cash Injections Can't Pacify Credit Concerns

NEW YORK (AP) -- Wall Street tumbled again Wednesday after the Federal Reserve added more cash to the banking system but failed to quash investors' jitters about problems in lending.

The market traded nervously, jerking the Dow Jones industrial average above and below the 13,000 mark throughout the day as investors wrestled with reports about potential trouble at Countrywide Financial Corp. and KKR Financial Holdings LLC.

By late in the day, investors saw little reason to buy beyond the fact that stocks are at bargain prices right now; but that wasn't enough for the market to hold any gains, and so the Dow dropped about 170 points. The Standard & Poor's 500 index also dropped sharply, and is now down for the year.

Central banks worldwide have supplied billions of funds to banks over the past week to make cash available for lending and keep interest rates stable amid signs that credit was drying up. On Wednesday, the Fed said it would accept a "repo" of \$7 billion, in which it buys that amount in securities from dealers, who then deposit the money into commercial banks.

Still, the Fed has not indicated that it will free up more cash by making an interest rate cut at its Sept. 18 meeting, a move that many on Wall Street believe could stoke a stock recovery. Inflation has been keeping the central bank from lowering rates; the Labor Department said Wednesday its Consumer Price Index rose a mild 0.1 percent in July, as expected, but energy prices remain high.

"Yes, the market would probably move dramatically higher if they made a cut," said Linda Duessel, market strategist at Federated Investors in Pittsburgh. "But I think it's more prudent to allow this correction to continue to unfold. After all, we're in the month of August and coming into September -- historically, the weakest months of the year. The market has been in need of a correction."

According to preliminary calculations, the Dow fell 167.45, or 1.29 percent, to 12,861.47, closing below 13,000 for the first time since April 24 and continuing a weeks-long pattern of triple-digit moves. The blue chip index is more than 8 percent below its record close above 14,000 reached in mid-July.

Broader stock indicators also fell. The S&P 500 index dropped 19.84, or 1.39 percent, to 1,406.70, and the Nasdaq composite index lost 40.29, or 1.61 percent, to 2,458.83.

Bonds rose, moving in the opposite direction as stocks. The yield on the benchmark 10-year Treasury note fell to 4.71 percent from 4.73 percent late Tuesday.

The Dow rose as many as 90 points Wednesday, as investors searched for bargains among hard-hit stocks.

"The most savvy investors are seeing an opportunity with the increase in volatility. Individuals not as used to this are having trouble navigating through it," said James Smothermon, Charles Schwab's active trading and investing strategist. He said clients have been changing their strategies through tactics like buying insurance on their portfolios and buying put options, or contracts that let an investor sell part of an asset at a set price within a certain time period.

But ultimately, investors sold off, focusing on the possibility of problems at lenders like Countrywide Financial. Merrill Lynch issued a "sell" rating on the stock, kindling worries about the biggest U.S. home lender's ability to raise cash to secure short-term funds.

Countrywide sank \$3.17, or 13 percent, to \$21.19.

In another sign that the market's lending woes are far from over, KKR Financial said it sold about \$5.1 billion in residential mortgage loans in a move that will result in a \$40 million loss for the specialty finance firm. KKR fell \$4.76, or 31 percent, to \$10.52.

Meanwhile, the housing market outlook remains grim. National Association of Home Builders said its housing market index, which tracks builders' perceptions of current market conditions and expectations for home sales over the next six months, dropped this month to the lowest reading since January 1991. It was the sixth straight monthly decline.

Not all mortgage-lending headlines were dire Wednesday. Thornburg Mortgage Inc.'s shares rebounded after its president said in a CNBC interview that while financing has been difficult, the company will pull through soon. Thornburg rose \$3.05, or 33 percent, to \$12.30.

And Lone Star Fund V LP, the private equity firm planning to buy Accredited Home Lenders Holding Corp., said it will extend its tender offer for the embattled mortgage lender's shares. Accredited Home Lenders rose 60 cents, or 11 percent, to \$6.10.

The bad news appeared to outweigh the good for investors, though, especially with the energy markets facing down a potentially damaging hurricane.

Crude futures rose 95 cents to \$73.33 a barrel on the New York Mercantile Exchange, after momentarily surpassing \$74. The National Hurricane Center said Tropical Storm Dean, strengthening in the Caribbean and heading west, could be a major hurricane by Thursday, while Tropical Storm Erin entered the Gulf of Mexico. Natural gas retreated from an early spike, though, as traders bet the storms wouldn't threaten the region's facilities.

The Russell 2000 index of smaller companies fell 11.33, or 1.49 percent, to 751.54.

Declining issues outnumbered advancers by 5 to 1 on the New York Stock Exchange, where trading volume came to 1.99 billion shares, up from 1.6 billion Tuesday.

Gold prices rose. The dollar rose against the euro and British pound, but fell versus the yen.

Overseas, Japan's Nikkei stock average slid 2.19 percent. Britain's FTSE 100 lost 0.56 percent, Germany's DAX index rose 0.28 percent, and France's CAC-40 dropped 0.66 percent.

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