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# Triple-digit losses on TSX wipe out year's gains

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TORONTO — Three consecutive days of triple-digit losses on the Toronto Stock Exchange have wiped out all the gains made last year, as jittery investors continued to sell while worrying about the impact of a weakening U.S. economy.

Markets, which have tumbled since the start of the new year, took another drop yesterday as fears of economic contagion spread to U.S. bond insurers.

The S&P/TSX composite index fell 279 points, following Wednesday's 242 point loss and Tuesday's plunge of 382, for a total of more than 900 points.

Closing yesterday down 2.1 per cent to 12,795.63, the index is now below the level of Dec. 31, 2006 when it was at 12,908.39.

"It's pretty scary out there," said Brandon Osten, president of Toronto-based Venator Capital Management Ltd., who also warned there could be more bad days to come. "You can get a short-term bounce. But in terms of the components that make up the largest portions of the TSX, I think the negatives outweigh the positives."

Every TSX index was down yesterday, led by the capped metals and mining index which was off by 4.8 per cent.

The biggest losers on the S&P/TSX 60 index were Potash Corp. of Saskatchewan, down \$14 or 10 per cent to \$124, and Agrium, down 10 per cent or \$6.52 to \$58.98.

Potash, one of 2007's hottest stocks, alone accounted for 43 points of yesterday's drop.

Among the big banks, Canadian Imperial Bank of Commerce fell the most, tumbling 2.9 per cent to close at \$67.24.

U.S. markets were hit just as hard, even after President Bush and Federal Reserve chairman Ben Bernanke called for an economic stimulus package to avert recession south of the border.

The Dow Jones industrial average was off by 306.95 points, or 2.5 per cent, to 12,159.21.

Merrill Lynch, which reported \$14.1-billion (U.S.) in fourth quarter writedowns and its biggest ever quarterly loss of \$9.8-billion, saw its stock dip 10 per cent to \$49.45.

Investors clearly feel we're moving into a very difficult economic environment, said Paul Harris, a portfolio manager with Avenue Investment Management Inc., although he cautions that "[we're] not going to know it's a recession until a quarter from now."

While financials and retailers had a tough time last year, "you are slowly seeing the cancer spreading into other areas of the market," Mr. Harris said.

"What is happening now is that everyone is selling everything else, and there is no place to hide."

U.S. bond insurers were particularly hard hit, after Moody's Investors' Service said it might downgrade one of them.

If the insurers, which guarantee payments on billions of dollars of bonds, see their ratings cut, the instruments they insure could also be downgraded. That could hike borrowing costs for municipalities and consumers, exacerbating any downturn.

Shares of Ambac Financial Group Inc., the subject of Moody's concerns, fell 52 per cent, while MBIA Inc. was off 31 per cent.

Peter Grandich, New Jersey-based editor of the Grandich Letter, said that the only thing that will fix all the market and economic problems in the U.S. is "time, and tough times."

Mr. Grandich, who started shorting U.S. stocks in October, said most Americans "still don't know what an economic, social and political mess the United States is in. I continue to believe financial markets, particularly in the United States, are going to greatly underperform."

Many investment managers advised clients not to panic, and suggested that solid, dividend-paying stocks may provide somewhat of a safe haven.

"My mantra is quality, quality, quality," said Adrian Mastracci, a portfolio Manager at KCM Wealth Management Inc. in Vancouver. Every serious investor's portfolio should include dividend-paying securities that will hold some of their value during bad market periods, he said.

"Quality and diversification together will save your bacon most times, or make the pain a little easier to take," he said.

Mr. Osten warned of jumping back into the market to take advantage of buying opportunities. "I don't think the valuations are super cheap at this point," he said.

The go-go stocks of last year like Research In Motion and Potash are still expensive, he noted, and everyone is still afraid of moving into the banks in a big way because of their exposure to asset-backed commercial paper.

*With files from Shirley Won and John Heinzl*

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