

## Singed

*by the St. Louis Post-Dispatch*

Investors - especially inexperienced investors - riding the stock market roller coaster may be feeling a bit queasy at the moment.

They should take some comfort in this thought: A little fear and queasiness reteaches an old lesson: All business involves risk. When business people become complacent about that, they get in trouble. And if too many of them get in too much trouble, they can torpedo the economy.

Certainly mortgage lenders forgot that lesson. As housing prices soared, subprime lenders threw underwriting standards out the window in order to put unqualified buyers into homes they couldn't afford. Now, they're paying for it as defaults rise and lenders go broke.

Mortgage lenders weren't alone in skating blithely on to thin ice. In January, "junk bonds" issued by financially shaky companies were yielding just 2.5 percentage points more than ultra-safe Treasury securities, according to Merrill Lynch. It's as if bond investors forgot that shaky companies often go broke. Junk bonds may be the next big wreck for investors.

By comparison, stock investors were behaving rather rationally. Before the recent upset, stocks in the Standard & Poor's 500 were trading at about 18 times trailing earnings. That's a little bit on the pricey side, but the market was hardly in fantasyland. Stockholders, it seems, still recall the drubbing they took when the tech bubble burst in 2001.

The recent stock market yo-yo ride was a reasonable - if somewhat delayed - response to prospects for the economy and corporate profits. The news there has been dreary, but far from disastrous.

The bursting of the housing price bubble, which became a bubble largely because of subprime lenders, still is

slowing the home construction industry. Meanwhile, American automakers also are in recession, although the U.S. plants of foreign automakers still are humming along.

Economists say those two factors together probably shave a percentage point off the gross domestic product, bringing economic growth down to about 2 percent from 3 percent.

Meanwhile, America's decade-long productivity sprint has run out of breath, at least temporarily. Productivity is output per hour worked, and last year's rate of 1.6 percent was the slowest since 1995. The slower productivity grows, the slower the economy can grow without producing inflation.

The Federal Reserve's anti-inflation warriors look very closely at those numbers. The low productivity number, combined with rising employment costs, means the Fed is unlikely to cut interest rates any time soon.

Add all that up, and it means relatively slower economic growth this year. For stock investors, it means the long run of double-digit growth in corporate profits is over, and single-digit growth is in the offing.

The stock market was mulling all that when up piped Alan Greenspan, warning that a recession was "possible" late this year, although not probable. The former Fed chairman is the world's most revered economist, and his words landed like a stink bomb on Wall Street. Traders held their noses and sold their stocks. Stocks weren't very pricey to begin with, so they'll probably avoid a long-lasting setback absent even more bad news. Meanwhile, subprime investors are losing their shirts. Junk bond prices are falling and yields are rising.

All this shows that investors are starting to take a more realistic view of risk, and it's about time.

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