Stock expert: ‘I’m telling clients to hold tight’

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Cincinnati stocks tumbled Monday as the U.S. stock market slid into a correction amid growing investor concerns about China’s slowing economy.

The Enquirer 80 closed down 3.9 percent. Major indexes reflected the carnage: The Dow sank 3.6 percent, the S&P 500 dropped 3.9 percent and the Nasdaq slid 3.8 percent. The Wilshire 5000 dropped 3.9 percent and estimated U.S. investors lost $925 billion Monday.

Hardest hit among locally-based public companies: Cincinnati Bell, down 7.6 percent; Hillenbrand, down 6 percent; Fifth Third, down 5.6 percent, E.W. Scripps, down 5.4 percent; and Ashland, down 5.2 percent.

At one point, the Dow was down more than 1,000 points before stocks rebounded. Local experts said the correction – a 10 percent drop from market highs – reflected growing investor caution as stocks continued to trade at historically rich valuations. The last market correction was in 2011.

“This correction is long overdue, much needed and welcome with open arms,” said Pete Sorrentino, a portfolio manager at Huntington Wealth Advisors in Norwood.

Only two locally-based companies saw their stock climb Monday: Lawrenceburg’s United Community Bancorp. and Frisch’s Restaurants, which saw their respective stocks both climb 8 cents.

Still, analysts advised investors not to abandon their financial planning. They added a market sell-off is good time to buy shares in companies with solid financials.

“This is almost a summer clearance sale on stock,” said Terry Kelly, principal at Bartlett & Co. Downtown. “Generally, investors should stick to their plans and not sell in a panic.”

Brian Clark, an investment managing director at U.S. Bank’s Private Client Reserve, said the U.S. economy continues to show signs of strength and that Monday’s sell-off doesn’t appear to foretell anything worse.

“I’m telling clients to hold tight,” Clark said. “I thinks it’s a short-term correction and we’re not going to take us into a bear market (a sell-off of 20 percent or more).”

Heightened concern about a slowdown in China had already shaken 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.

The Dow plummeted 1,089 points within the first four minutes of trading as traders dumped shares. But the fire sale was short-lived. A wave of buying cut the Dow’s losses by half just five minutes later.

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 continued slump in the price of oil. The sector is down almost 25 percent this year.

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

Analysts said China woes affected U.S. stocks in multiple ways. A slowdown in the world's second-largest economy behind the U.S. could mean less demand for products by international companies.

Procter & Gamble, which does 8 percent of its sales in China, saw its shares drop 3.8 percent Monday.

"What's a company that's doing business with China actually worth right now? When you're not sure, you tend to sell," said JJ Kinahan, TD Ameritrade's chief strategist.

But China's slowdown also means institutions look for safer places to park money.

U.S. stocks have also enjoyed a runup this year as developing countries have deflated their currencies to spur their domestic economies – with China devaluing the yuan this month the latest example. To preserve wealth against deflation, foreign investors from Europe and Asia have plowed money into U.S. stocks.

Growing doubts the Fed might boost interest rates next month, which would further strengthen the dollar, removed some of the allure of U.S. stocks for foreign investors, Sorrentino said.

"They bugged out and went home," Sorrentino said.

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.

U.S. stocks have kept climbing even as corporate earnings growth has 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.

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

China growth concerns aside, U.S. stocks have been primed for a sell-off for several months, said Jim Paulsen, chief investment strategist and economist for Wells Capital Management.

"I've been of the view since late last year that this market is in a vulnerable position," he said. "It's gone almost straight up for six years."

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.