



Brutal selloff punishes stocks

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NEW YORK (CNNMoney.com) -- Stocks slumped Tuesday, with the Dow losing 243 points, as worries about subprime lending, the economy and the weak dollar sparked the second-worst selloff of the year.

The Dow Jones industrial average, down 242.66 to 12,075.96, and the broader S&P 500, down 28.65 to 1,377.95, index both lost about 2 percent.

The tech-heavy Nasdaq, down 51.72 to 2,350.57, composite sank more than 2 percent and the Russell 2000, down 19.88 to 769.12, small-cap index tumbled 2.5 percent.

The selloff sent investors scurrying for safety and Treasury prices jumped, sending the 10-year note yield down below 4.5 percent. Bond prices and yields move in opposite directions. Meanwhile, the dollar tumbled versus other major currencies.

The scary math of the subprime shakeout

Clearly, the issues for subprime are having an impact on the broader market," said Richard Hoyt, portfolio manager at KDV Wealth Management. "The market is a combination of fundamentals and psychology and right now, psychology has the upper hand," he added.

Worries about subprime mortgage lenders dominated trading after New Century Financial said the SEC has subpoenaed documents in an accounting probe. And the New York Stock Exchange suspended the company's stock and is having it delisted.

New Century's problems sparked a broad selloff in among subprime lenders, who have seen an alarming rise in defaults on loans to their customers - home buyers with weak credit. Investors are worried that problems in the sector will hurt not only subprime lenders but also the broader housing market, and thus consumer spending, which fuels two-thirds of the economy.

Also in focus: a surprisingly weak read on retail sales and more nervous buying of the yen. After seesawing over the last week, the yen surged as investors closed out so-called carry trades - bets on riskier assets bought by borrowing in the countries with low interest rates, like Japan.

Consumer spending set to tank?

The factors driving stocks lower were the same ones that caused the big selloff two weeks ago, said Barry Hyman, equity strategist at EKN Financial services.

On that day, the Dow plunged 416 points - the biggest one-day point drop since the day the market reopened after the Sept. 11 attacks.

"I think it's hard to put aside that big drop in the market and the reasons behind it," he said. "Again, selling is being driven by worries about the subprime contagion and the weak carry trade."

Tuesday's weak retail sales report - the latest in a string of sluggish economic data - revived fears about the economy slowing abruptly, and possibly falling into recession, Hyman said.

On Feb. 27, the day of the big selloff, the Dow hit a trading low of 12,086.06 before closing a little higher. It declined on and off for the next few days before hitting a low on March 5 of 12,039.11.

On Tuesday, the Dow closed near its low of 12,071 before bouncing back a bit just before the close.