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Markets' stumbles could affect small investors, analysts say

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The first day of trading in the world's financial markets brought dramatic declines in both American and foreign exchanges that some feel could have an impact on small investors.

Worries about the Chinese economy's ability to sustain growth, stemming from the lower-than-expected results for that country's manufacturing sector, set the tone for equity trading around the world on Monday and forced authorities there to halt trading earlier than normal. Bloomberg News said the more than 7 percent decline in Chinese stocks was the worst drop ever in that country.

That led to unsettled trading on German financial markets and, by the end of Monday, had resulted in the Dow Jones Industrial average falling 276 points after having dropped nearly 470 points during the day. The Nasdaq composite index, which is dominated by technology stocks, was down 104 points.

Joe Matthews, a first vice president with Morgan Stanley in Fairfield, said historically the first day of trading in a given year has 50 percent chance of setting the tone for U.S. financial markets for the year. The decline in China's financial markets, along with the severing of diplomatic relations between Saudi Arabia and Iran, combined to create concern among investors, Matthews said.

"What we're seeing is a convergence of growth in the developed as well as the undeveloped world," he said. "China's manufacturing index showed contraction, but it was that far off from what we expected. The Saudi-Iran situation caught some people by surprise; it wasn't something that was in the forefront for people until now."

Matthews said he doesn't see a prolonged decline in equities.

"Be selective, but buy some of the stocks that are being sold off right now," Matthews said. "A (stock) portfolio need to be balanced, based upon someone's tolerance for risk as well as their need for liquidity."

Donald Klepper-Smith, chief economist and director of research for New Haven-based DataCore Partners, said Monday financial market activity will definitely be felt by small investors.

“You have a high income state that is tied to equity markets,” Klepper-Smith said of Connecticut. “Somebody who loses \$5,000 of a \$110,00 portfolio is going to react to that kind of loss. It constricts (consumer) consumption and makes people feel less wealthy.”

Klepper-Smith said he expects a more serious decline in U.S. financial markets because of the Federal Reserve Bank’s recent decision to hike interest rates.

“Equities don’t do well in a market where interest rates are rising,” he said. “Over the past six months, people are feeling a lot less settled than they were before.”