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The Fed's boldness put the market back on track. Now, will the nation's economic engine move ahead?

By Bob Kievra TELEGRAM & GAZETTE STAFF

After weathering the worst quarter in more than five years, investors are left to ponder if the emergency surgery and steady dose of medication remedied what was ailing Wall Street.

The just-completed quarter, with its jaw-dropping stock swings, investment bank failures and interest rate cuts, took investors on an unwanted ride, a three-month period of fear and uncertainty that ended most doubts that the economy had fallen into recession.

Both the Federal Reserve and lawmakers broke out every tool available and invented some new ones in an attempt to stem the decline, whose breadth and depth seemed to grow weekly. In the end, the major stock indexes posted their worst quarter since 2002 and the declines wiped out all the gains of 2007.

Investors began the quarter braced for a precarious period, wondering whether the bull market had come to an end. Within weeks, they had their answer. Global financial markets were in a free-fall by mid-January, a deepening panic that prompted the Federal Reserve to engineer the steepest interest rate cut in more than 20 years.

"There was really a sense that the sky was falling," said Gary H. Sherr, vice president of Carl P. Sherr & Co., a Worcester investment advisory and brokerage service company. "You kept running out of shoes because they just kept dropping."

The biggest shoe to drop came last month with the sudden demise of Bear Stearns, the country's fifth-largest investment bank. With the assistance of the Federal Reserve, the venerable bank, driven to the verge of bankruptcy by major losses on investments tied to mortgages, was purchased by JP Morgan Chase.

While shocking and unprecedented at the time, the Bear Stearns deal, prodded by Federal Reserve Chairman Ben S. Bernanke, might have put a floor under the market, a necessary pause that permitted everyone to catch their breath and start believing the worst might be over.

"I know I feel better than I did four or five weeks ago," said J. Michael Grenon, vice president at Grimes & Co. Inc. of Westboro, an investment advisory firm.

While the all-clear sign hasn't sounded, investors now know that Mr. Bernanke will not stand idly by and wait for bad things to happen, a personality trait that gave confidence to investors pushing the "sell" button. The markets were in positive territory for April, but lost ground Friday after General Electric unexpectedly reported a drop in profit.

"We're off the bottom," said Thomas J. Bartholomew, president of Bartholomew & Co. Inc., a Worcester-based investment planning company. "The train's not out of the station yet, and there's still some potential for disappointments, but there's been some nice rebounds."

The first quarter featured a daily dose of bad news, as investors fretted about securities where mortgages acted as collateral, oil prices topped $100 a barrel and a housing market was marked by a lack of sales and plummeting values.

"Everything went from bad to worse," Mr. Sherr said. "When you expect the floor below you to be solid, and it's not, you wonder how far you'll fall."

The T&G/Bloomberg Central Massachusetts Index of locally based public companies fell hard, posting its first negative quarter since 2006 as almost every sector got caught in the downdraft.

The price-weighted index dropped 15.23 percent based on price appreciation and had a total return of -15 percent as only six of 29 companies posted positive returns for the three-month period ending March 31.

For the quarter, the Dow Jones industrial average fell 7.55 percent. The Standard & Poor's 500 Index slid 9.92 percent based on price appreciation and had a total return of -9.45 percent. The Nasdaq Composite Index was down 14.07 percent on a price appreciation basis and had a total return of -13.88 percent.

There were few bright spots in the quarter, but railroad stocks remained in favor, including the Providence & Worcester Railroad. Shares of the Worcester-based freight hauler rose 15.13 percent and railroad stocks in general were up 9.6 percent for the quarter.

The L.S. Starrett Co., the Athol-based maker of tools and measuring instruments, also posted a positive quarter and reported higher net earnings and revenue for the second quarter ended Dec. 31.

But positive performances were hard to find and companies such as The Hanover Insurance Group Inc., whose shares fell 10 percent, were the norm.

"There really wasn't a safe haven," said Mr. Sherr. "Even the traditional sectors got hurt."

3Com Corp. of Marlboro took a first quarter drubbing after a deal to sell the company to Bain Capital Partners and a Chinese company broke down over concerns of national security. Shares of 3Com fell nearly 50 percent and the company said it would pursue a $66 million termination fee from Bain.

Staples Inc., the world's largest office products supplier, trimmed its profit and sales forecast for the full year and said retail customer traffic was choppy. Shares of Staples declined 4.16 percent.

Mr. Bernanke did his best to stem the pain, orchestrating rate cuts designed to put more liquidity into the financial markets and lowering rates six times since last August.

"I'm very impressed with how he's been able to handle this so far," said Kevin T. Grimes, portfolio manager at Grimes & Co. Inc. "He's been preemptive and creative and the markets have reacted well to that."

Mr. Sherr said he's been buying selective stocks since the Bear Stearns collapse. He said he's been adding shares from companies in the financial services, housing and investment bank sectors.

"I started to nibble back in after St. Patrick's Day," he said. "I started to get a sense that the worst might be over."

A recession has taken hold but it will likely be shallow, said Mr. Bartholomew. A re-allocation back to equities has begun and Wall Street's success will depend on how employment holds up.

“The Fed has got to add liquidity to help businesses add jobs,” he said. Employers cut 80,000 jobs in March and the national unemployment rate rose to 5.1 percent.

“We’re not going to get out of this thing until people start getting hired,” Mr. Bartholomew said.

More interest rates cuts are likely as long as inflation remains in check, said Mr. Sherr. Rising costs of food and fuel are a concern, but Wall Street will not react well if rate cuts don’t continue for the near future, he said.

“It’s what’s expected,” Mr. Sherr said. “It’s like the patient is crying for more medicine and this is the only way to shut him up.”

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