

'October massacre' relapse?

Fed 'medicine' provokes stock shock

The sharp drop in the stock market in October of last year was nicknamed the "October Massacre." It lost 100 points, representing 11 percent of its price, in a five-week period.

At this writing, the current market has lost 83 points, or 9 percent, of its price in two weeks.

And the slump hasn't stopped yet.

THE CAUSE of both declines is basically the same — sharply rising interest rates.

Last year's decline followed two quick increases in the prime rate from 10 percent to 11½ percent.

While the prime was subsequently raised to 11½, the stock market chose to ignore it and continued a slow recovery until late July, when it had regained about 50 percent of the loss.

At that time, President Carter appointed Paul Volcker as chairman of the Federal Reserve Board.

THE MARKET responded enthusiastically and quickly posted a 50-point gain to take it back almost to the level from which last year's decline began.

And that 50-point gain occurred during a period when the prime rate was being increased almost weekly. It stood at 11½ percent before Volcker took his position.

We have experienced a 3 percent increase to the current level of 14 percent in the 13 weeks of his tenure.

The earlier increases were considered to be bullish. Wall Street felt that the Fed's get-tough policy would bring inflation under quick control. There is no evidence yet to suggest that tight money is slowing the inflation rate. The market was already beginning to hesitate, marking time while it awaited some firm indication that the high cost of money was beginning to dampen the economy.

The event that triggered the initial decline occurred on Saturday, Oct. 6. The Federal Reserve Board, in an unprecedented Saturday meeting, an-

Home buyers seek options for financing

Faced with record high interest rates, local home buyers are turning from conventional mortgages to alternate methods of home financing.

A report of September existing home sales from the Western Wayne Oakland County Board of Realtors (WWOCBR) indicates a shift to VA mortgages and land contracts.

In September 1978, Veterans Administration (VA) mortgages were used by only 2.5 percent of buyers and land contracts by 5.6 percent. A year later, sales by WWOCBR members indicate 12.1 percent of buyers used VA mortgages and 10.7 percent land contracts.

"MORE SIGNIFICANTLY, these types of financing are being used increasingly to purchase higher priced suburban homes," said John Cole, WWOCBR president.

"Last year, it was highly unusual to help process a VA loan on a property above \$40,000. In September, 12.1 percent of homes sold by our members in the \$50,000-\$60,000 range had VA-backed financing as did 11.3 percent in the \$70,000-\$90,000 range."

Cole said the increased use of VA loans first showed up in June and has climbed from a 4.5 percent figure then to the 12.1 percent of last month.

"We also have seen similar patterns emerging with sales by land contract," he added. "They have climbed steadily since May and their percentage of use has about doubled in the higher priced home ranges since that time."

ELIGIBLE VA home buyers like such mortgages because it allows them to move in with payment of little more than closing costs and a government set interest rate, currently 10.5 percent.

Sellers, on the other hand, dislike the financing instrument because it requires them to pay the lender a certain amount (points) to make the loan compatible with conventional terms.

"Last year when the market was strong and mortgage funds in good supply, we had no difficulty finding qualified buyers ready to accept conventional mortgage terms," Cole said.

"This year with less mortgage money available and a soft market for homes, sellers who must, or want to, move their property may have to accept alternate forms of financing, even if it means payment of points to the lender."

"HOWEVER, WE find that, knowing they will have to pay points in accepting VA-backed financing, such sellers are remaining fairly firm on the price asked."

He noted that VA home sales also may have been aided by the fact that city certification of the home is no longer required, except where it is demanded by local ordinance.

Cole said that he expected an increase in the use of Federal Housing Administration (FHA) loans, although a growth pattern for this type of financing hasn't yet become apparent. It is anticipated that Congress will shortly approve an increase on the loan limit for FHA purchased single-family homes from \$50,000 to \$67,500.

Group homes topic of panel

Residential group homes for the mentally retarded will be discussed by several public officials at a 7 p.m. meeting tonight (Thursday) sponsored by the Association of Retarded Citizens of Oakland County.

The meeting will be in the Birmingham Community House, 1380 S. Bates.

Panelists include Dr. Thomas Majum, chairman of the Oakland County Community Mental Health Board, State Rep. Claude Trim, D-Davisburg, chairman of the House Mental Health Committee; Tom Miller, of the Macomb Oakland Regional Center and Mary Lou Herrold, of the Association of Retarded Citizens.

nounced an increase in the discount rate from 11 to 12 percent.

Not only did this take the level to a new all-time peak, but it was the first time in history that the interest rate had been increased by a full 1 percent in one fell swoop.

THE BANKS were closed on the following Monday in celebration of Columbus day. The stock market was open, and while it declined 13 points, the volume of trading was relatively light as it usually is on a bank holiday, and not much significance was

attached to the decline.

The second shock occurred just as the market was opening for trading on Tuesday. The Chase Manhattan bank announced a 1 percent increase in their prime rate from 13½ to 14½. Most of the nation's major banks quickly followed their move, and the market began an immediate decline.

By the 4 p.m. close of business, 55 million shares had changed hands, and at the Dow Jones Industrial Index registered a 28-point decline. The following day, Wednesday, witnessed the busiest day in the history of the exchange. Volume of trading totaled

Market Watch

By JOHN E. VERNIER



81.6 million, topping the previous most active day by some 15 million shares. After registering another 26-point decline around 1 p.m., the market improved from its low to mark a 15-point minus at the close.

As painful as the Fed's action has been to the stock market, it should probably be applauded as a constructive measure imposed without political considerations and as an honest effort to harness the double-digit inflation that has relentlessly sapped the purchasing power of the dollar.

The writer is in the Plymouth office of Manley, Bennett, McDonald and Co.



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