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## Wall St tumbles on Obama banking proposal

By Angela Moon

NEW YORK, Jan 21 (Reuters) - Wall Street tumbled on Thursday after U.S. President Barack Obama proposed rules aimed at making the financial system safer by preventing the biggest banks from taking excessive risks.

U.S. stocks hit session lows following his comments, with the Dow falling more than 2 percent. Major banks, including Goldman Sachs, also slipped to their session lows.

Obama said banks should no longer be allowed to own, sponsor or invest in hedge funds for proprietary profit. Proprietary trading -- when a firm uses its own money to make bets on markets -- has been an engine of earnings for some major banks.

"This is going to have a tremendous impact on big-name brokerage firms, like Goldman Sachs and JPMorgan," said **Ralph Fogel, investment strategist at Fogel Neale Partners in New York.**

"If they stop proprietary trading, it will not only dry up liquidity in the market, it will change the whole structure of Wall Street, of the whole trading community."

The Dow Jones industrial average .DJI was down 210.62 points, or 1.99 percent, at 10,392.53. The Standard & Poor's 500 Index .SPX shed 20.28 points, or 1.78 percent, to 1,117.76. The Nasdaq Composite Index .IXIC lost 28.61 points, or 1.25 percent, to 2,262.64.

Goldman Sachs (GS.N) shed 4 percent to \$159.54, giving up earlier gains after it reported stronger-than-expected fourth-quarter net income.

Citigroup (C.N) fell 5 percent to \$3.26 and Bank of America (BAC.N) dropped 6 percent to \$15.50.

Morgan Stanley (MS.N) fell 5 percent to \$29.13 while JPMorgan Chase & Co (JPM.N) shed 5 percent to \$41.04.

The Select Sector SPDR Financial ETF (XLF.P) was down 2.5 percent.

The CBOE Volatility index .VIX, sometimes called Wall Street's fear gauge, jumped as investors turned cautious after the proposed restrictions on U.S. banks.

The VIX, up nearly 13 percent at 21.10, was on track for its biggest 2-day run-up in nearly two months.