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MARKET REPORT

Dandelion Day for stocks, bonds

Mideast, Snow remarks take toll

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The spring blossoms in stocks and bonds turned into dandelions Monday as traders recoiled from a series of negative stories, from Morocco to Maine.

Stock prices sank broadly in moderate trading, wiping out most of the month's gains.

Violence in Israel, anti-U.S. demonstrations in Baghdad, fears of terrorist attacks in Saudi Arabia and Morocco, and controversial remarks about the dollar by Treasury Secretary John Snow combined to give Wall Street a rough opening to the week.

The Dow Jones industrial average fell 185.58 points, or 2.1 percent, to 8493.39. The Dow ended April at 8480 and closed at a peak of 8726 a week ago.

The Treasury market failed to profit by the exodus from stocks. Treasury bonds fell, sending interest rates higher, as the weak dollar repelled non-U.S. investors in U.S. financial assets.

"We want to get that fishing boat out and a lot of bait and maybe take off a couple of months," said Michael Painchaud, independent market analyst at Market Profile Theorems in Seattle. "Two or three months down the road, we probably will be just as well off in Treasury bills."

For the first time in a year, all three of the major indicators that Painchaud follows--insider trading, earnings momentum and technical patterns--turned bearish last week, he said.


He said trading by company officers and directors in their own stock is especially aggressive in sectors of the market related to real estate: home builders, real estate investment trusts, savings and loan associations, and hotels.

The Bloomberg index of home builder stocks is up nearly 21 percent for the year but has slid in recent days.

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Painchaud estimates that second-quarter corporate earnings reports will be less inspiring to investors than first-quarter reports, which generally beat the deflated estimates of Wall Street analysts.

Noting the seasonal doldrums in the stock market, Painchaud said: "I hope that this situation works itself out in a sideways manner, that we muddle through. I would not like to see a test of last October's lows."

On the other hand, the index of leading economic indicators compiled by the Conference Board, a business research group, rose in April for the first time this year. The gain reflected improved consumer sentiment and higher stock prices last month.

Monday's action: Only two of the 30 Dow stocks--Coca-Cola and Altria Group--posted a gain. Drugmaker Merck, one of the Dow components, dropped \$2.80, to \$56.65.

The Supreme Court gave pharmaceutical companies a headache by throwing out a temporary injunction imposed by a lower court against Maine's program that forces drugmakers to charge discounted prices for prescription drugs sold to low-income people and the uninsured.

Other states are expected to follow Maine's lead if later court action upholds the law. An index of 15 drug stocks compiled by the American Stock Exchange lost more than 4 percent.

Biotech stocks rallied, on the other hand, after Genentech reported that an experimental drug the company is developing, called Avastin, slows the growth of colon cancer tumors longer than expected.

Genentech shares soared \$16.95, or nearly 45 percent, to \$54.85, a level not seen since December 2001.

The Standard & Poor's 500 index lost 23.53 points, or 2.5 percent, to 920.77. The Nasdaq composite index dropped 45.76 points, or 3.0 percent, to 1492.77. The Russell 2000 index of small-company stocks fell 6.37, or 1.5 percent, to 408.32.

New York Stock Exchange trading volume reached 1.36 billion shares. Nasdaq trading volume totaled 1.66 billion shares. Losing stocks outnumbered winners by an 8-3 ratio among NYSE and Nasdaq stocks.

Treasury hang-up: The Treasury postponed until at least Tuesday its weekly auction of 3- and 6-month bills. Congress has balked at increasing the government's debt ceiling, a move that is needed before more debt securities can be sold.

According to a letter Snow sent House Speaker Dennis Hastert (R-Ill.), the government has enough cash on hand to operate until about May 28.

Many members of Congress are reluctant to be seen voting for tax cuts and a higher government debt ceiling at the same time.

Meanwhile, the slide in the dollar against the euro and yen continued to make non-U.S. investors think twice about buying U.S. stocks and bonds.

According to Moody's Investors Service, non-U.S. investors own 32 percent of Treasury securities and 23 percent of corporate bonds.

"A recovery by capital spending and the return of business expansion is of critical importance to the

U.S. economy," economists at Moody's said in a report Monday.

"Such a recovery may be all the more difficult to realize if a loss of global investor confidence in the dollar simultaneously lowers stock prices and lifts Treasury yields."

Snow said over the weekend that the level of the dollar in relation to such currencies as the yen and the euro was not the only measure of dollar strength.

Traders took Snow's remarks as a signal that the Bush administration has abandoned the long-standing official U.S. policy in favor of a strong dollar.

The dollar was quoted at four-year lows against the euro and two-year lows against the yen on Monday.

The dollar's slide has been kept in check by fears among currency traders that Japan will enter foreign exchange markets to buy dollars and that European governments will cut interest rates, making the euro less attractive.

Federal Reserve Board Chairman Alan Greenspan is scheduled to speak to the Joint Economic Committee of Congress Wednesday. He is likely to be asked about the weak dollar, the concerns about a general deflation in prices in the U.S. and the Fed's outlook for economic growth.

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