



October 28, 2002

MARKET MOVERS

Bruised Stocks Lead Rally, But How Long Will It Last?

By **E.S. BROWNING**
Staff Reporter of THE WALL STREET JOURNAL

The last have become first.

Since the stock market began its turnaround Oct. 10, the most impressive gains have been made by some of the market's most troubled stocks, such as telecommunications firms and Internet companies.

Nortel Networks has more than doubled in value during the past 12 trading days. **Sprint PCS** has almost doubled. **Delta Air Lines** has gained 66%. **AOL Time Warner Inc.** has risen 37%.

Wireless phone stocks, which lost 77% of their value from the start of this year through Oct. 9, have rebounded 80% since then. Though they remain far below where they began the year, they nevertheless have been transformed from the biggest losers in the market to the biggest winners, according to a listing of industry groups in the Standard & Poor's 500-stock index.

Something similar has happened with communications-equipment stocks, airlines and producers of computer-chip-making equipment, according to market-research firm Birinyi Associates in Westport, Conn., which analyzed the data.

This isn't an anomaly. Veteran investors say the most beaten-down stocks often lead a rebound, replacing the stocks that served as refuges during the market's decline. At some point, though, such wounded warriors have trouble maintaining momentum. For the rally to continue, other more solid stocks have to take the lead.

"When you hit a bottom, you normally see a bounce in whatever has been trashed" in the preceding months, says David Testa, chief investment officer at Baltimore mutual-fund group T. Rowe Price. "And you are seeing that now. But that doesn't tend to last."

The market saw something similar a year ago, when a group of beaten-down stocks led the rally following the Sept. 11 terrorist attacks. The same kinds of stocks led the brief surge in late July and early August of this year, notes Jeff Rubin, Birinyi's head of research. Those two rallies ran out of steam when the

COMPANIES

Dow Jones, Reuters

Nortel Networks Corp. (NT)

PRICE 1.14
CHANGE 0.07
U.S. dollars 10/25

Sprint Corp. (PCS Group) (PCS)

PRICE 3.49
CHANGE -0.16
U.S. dollars 10/25

Delta Air Lines Inc. (DAL)

PRICE 10.80
CHANGE 0.27
U.S. dollars 10/25

AOL Time Warner Inc. (AOL)

PRICE 14.70
CHANGE 0.15
U.S. dollars 10/25

Johnson & Johnson (JNJ)

PRICE 57.76
CHANGE 0.05
U.S. dollars 10/25

Microsoft Corp. (MSFT)

PRICE 52.68
CHANGE 1.45
U.S. dollars 10/25

Exxon Mobil Corp. (XOM)

PRICE 35.11
CHANGE 0.44
U.S. dollars 10/25

Dell Computer Corp. (DELL)

PRICE 29.04
CHANGE 0.65
U.S. dollars 10/25

Citigroup Inc. (C)

PRICE 35.70
CHANGE 1.03
U.S. dollars 10/25

J.P. Morgan Chase & Co. (JPM)

PRICE 20.37

early leaders faded and corporate earnings were too weak to fuel gains in other stocks.

The overall market has been much less volatile. From the start of the year through Oct. 9, the Dow Jones Industrial Average was down 27%. Since then, the industrials have risen nearly 16%.

It isn't hard to see why beaten-down stocks stage big early gains and then run out of momentum. A lot of it has to do with the tactics of short sellers, investors who bet that stocks will decline and who have become a big factor in the stock market lately.

Short sellers hope to profit by borrowing shares of companies they think are headed for trouble, selling the shares, and then buying them back after they decline. When the stock starts to turn up after a decline, they hurry to close out their positions. To do so, they must buy the stock back and return it to the brokerage firms from which they borrowed it. So in a sharp rally, the most prominent gainers often are beaten-down stocks that were the targets of short sellers.

Professional investors have so much experience with this that, when they see it happening, they tend to jump into the stocks that short sellers are buying to cover their positions. Some short sellers may do the same -- unwinding a short position and then buying some shares in a short-term effort to ride the stock up.

But once that short-term speculative frenzy ends, the fundamental question returns: What are the prospects for the stocks and for the market in general?

Investors remain divided on that issue. While some think stocks did hit bottom this month, others fear the market could sag again as a soft economy fails to support the earnings needed to sustain lasting gains. Either way, however, few think volatile stocks with the big recent gains are a good medium-term bet.

"We have seen three significant moves in the last year and a half" in the stock market, "and all of them flamed out," says Jon Brorson, director of stocks at Northern Funds, a money-management arm of Northern Trust in Chicago. "This could very much be the same case. I would be very cautious whether the bear market is over."

He says he wouldn't make long-term investments in the beaten-down stocks that have led the recent rebound. "The only way these smaller, junkier, credit-impaired, cyclical stocks are going to do well is if the economy goes on a tear. The probability of that happening is like the probability of my winning the lottery. It just isn't going to happen," he says.

He prefers stocks such as **Johnson & Johnson**, **Microsoft Corp.** and **Exxon Mobil Corp.**, which dominate their businesses and could hold up well even in a continuing bear market.

CHANGE 0.67
U.S. dollars 10/25

General Electric Co. (GE)

PRICE 26.24
CHANGE 0.24
U.S. dollars 10/25

PepsiCo Inc. (PEP)

PRICE 44.19
CHANGE -0.39
U.S. dollars 10/25

CIGNA Corp. (CI)

PRICE 39.39
CHANGE -24.21
U.S. dollars 10/25

Amazon.com Inc. (AMZN)

PRICE 19.30
CHANGE -0.56
U.S. dollars 10/25

JDS Uniphase Corp. (JDSU)

PRICE 2.20
CHANGE -0.22
U.S. dollars 10/25

Lockheed Martin Corp. (LMT)

PRICE 56.63
CHANGE -2.47
U.S. dollars 10/25

Dow Chemical Co. (DOW)

PRICE 26.75
CHANGE 1.78
U.S. dollars 10/25

Noble Corp. (NE)

PRICE 31.45
CHANGE -3.61
U.S. dollars 10/25

Verizon Communications Inc. (VZ)

PRICE 36.57
CHANGE -0.32
U.S. dollars 10/25

VeriSign Inc. (VRSN)

PRICE 8.13
CHANGE 0.72
U.S. dollars 10/25

American Electric Power Co. Inc. (AEP)

PRICE 24.65
CHANGE 2.78
U.S. dollars 10/25

Koninklijke Ahold N.V. ADS (AHO)

Another temptation would be to turn back to the stocks that did the best during the long decline earlier this year -- and which are doing the worst now. But those tend to be stocks in household-products companies or food companies, which hold up well in down markets but do less well in recoveries.

Bob Bissell, president of Wells Capital Management, a money-management arm of Wells Fargo & Co., is more bullish. But even though he believes the market has turned, his recommendation is surprisingly similar to Mr. Brorson's. "If you get into tough times, the better companies withstand these periods better and actually tend to pick up market share," he says. "A great example of that is **Dell Computer**. It is doing well as most computer makers are suffering."

He also likes big banks such as **Citigroup Inc.** and **J.P. Morgan Chase & Co.**, despite their recent troubles, as well as **General Electric Co.** and **PepsiCo Inc.** "A lot of these great franchises have below-market valuations and to me their upside potential is better than that of the market," he says. But as for wireless or Internet companies, "I don't believe in the profitability there."

Some doubts about the current rally's duration did creep into the market last week, sending the Dow industrials bouncing. The blue-chip average managed a gain of 1.46%, or 121.59 points, for the week, marking the third-consecutive week of gains after six weeks of losses. It included an advance Friday of 1.52%, or 126.65 points to 8443.99. The Nasdaq Composite Index rose 3.36%, or 43.27 points, last week to 1331.13, including a gain of 2.5%, or 32.42 points, Friday.

One of the biggest worries on investors' minds involves the ability of tech companies to deliver a strong increase in their earnings, says Benjamin Pace, portfolio manager at Deutsche Bank Private Banking in New York. "The one area that we are still not sold on -- and it may cause a muting of any market advance -- is the technology sector," Mr. Pace says. Other companies simply haven't stepped up their long-awaited capital spending on new tech gear, and until they do, it will be hard for tech stocks as a group to recover.

"We think that the tech comeback may be delayed but that the deterioration in technology is near an end, if not at an end now," Mr. Pace says. The trouble, he says, is that if the forecasters are surprised and tech demand continues to weaken, it could pull the broad market back down. He is avoiding tech stocks and putting his money on health-care and industrial companies.

Friday's Market Activity

Cigna fell \$24.21, or 38%, to \$39.39 after the company sharply lowered its third-quarter, 2002 and 2003 estimates due to weaker-than-expected health-care results in its Employee Health Care, Life & Disability segment.

Citigroup rebounded from earlier weakness, finishing up 1.03, or 3%, at 35.70 on word the company plans to eliminate more than 1,000 jobs in its investment-banking and corporate-banking business.

Amazon.com (Nasdaq) fell 56 cents, or 2.8%, to 19.30 after the retailer reported a narrower third-quarter loss as it boosted revenue by 33% with discounts and free shipping. Prudential Securities downgraded the stock to "sell" from "hold," citing concerns over the stock's price and the sustainability of growth.

PRICE	12.16
CHANGE	-0.70
U.S. dollars	10/25

SunGard Data Systems Inc. (SDS)

PRICE	21.60
CHANGE	1.58
U.S. dollars	10/25

Intel Corp. (INTC)

PRICE	16.59
CHANGE	0.96
U.S. dollars	10/25

International Business Machines Corp. (IBM)

PRICE	74.56
CHANGE	2.46
U.S. dollars	10/25

Hewlett-Packard Co. (HPQ)

PRICE	14.62
CHANGE	0.82
U.S. dollars	10/25

* At Market Close

JDS Uniphase (Nasdaq) lost 22 cents, or 9.1%, to 2.20 after the network-equipment maker reported a first-quarter loss before items of seven cents a share, in line with consensus estimates, but said fiscal second-quarter sales would be weaker than expected and more job cuts are on the way.

Lockheed Martin dropped 2.47, or 4.2%, to 56.63 as the defense contractor reported third-quarter net income of 66 cents a share from continuing operations, beating analysts' estimates. The company said pension expenses may weigh on earnings next year.

Dow Chemical gained 1.78, or 7.1%, to 26.75 while **Corning** fell three cents, or 1.5%, to 1.97. Their Dow Corning Corp. joint venture reported sharply improved third-quarter net income, helped by restructuring and cost-cutting efforts.

Drilling contractor **Noble Corp.** shed 3.61, or 10%, to 31.45 after reporting third-quarter earnings of 37 cents a share, in line with Wall Street forecasts but down from a year earlier. Noble said activity is soft in the U.S. Gulf of Mexico, and said it doesn't see a turnaround in 2003. Merrill Lynch downgraded the stock to "neutral" from "buy."

Verizon Communications dropped 32 cents to 36.57. The company reported third-quarter earnings of 77 cents a share, before items, in line with estimates. Including items, profit more than doubled from a year earlier, but the boost came from investment gains and tax benefits, and revenue was flat.

VeriSign (Nasdaq) gained 72 cents, or 9.7%, to 8.13 after the Internet security-services provider said its third-quarter loss narrowed to 34 cents a share from \$1.91 a share a year earlier.

American Electric Power gained 2.78, or 13%, to 24.65 after reporting third-quarter earnings of \$1.25 a share, beating Wall Street estimates of \$1.05 a share.

Dutch food-and-beverage retailer **Ahold**, whose American depository shares trade on the New York Stock Exchange, dropped 70 cents, or 5.4%, to 12.16 as third-quarter sales at the company's U.S. food-service unit fell 6.1% excluding acquisitions.

Sungard Data Systems climbed 1.58, or 7.9%, to 21.60 after the company reported third-quarter cash earnings of 33 cents a share, above analysts' expectations. The company affirmed its forecast for the full year.

Intel (Nasdaq) climbed 96 cents, or 6.1%, to 16.59 while rival chip maker Advanced Micro Devices added 17 cents, or 2.9%, to 6.09.

International Business Machines rose 2.46, or 3.4%, to 74.56, while **Hewlett-Packard** gained 82 cents, or 5.9%, to 14.62. Both are components of the Dow industrials.

-- Shaheen Pasha

Write to E.S. Browning at jim.browning@wsj.com¹

URL for this article:

<http://online.wsj.com/article/0,,SB1035553421276148351.djm,00.html>

Hyperlinks in this Article:

(1) <mailto:jim.browning@wsj.com>

Updated October 28, 2002

MARKETS DATA AND RESOURCES

Statistical features related to U.S. Stocks

Regular Hours

- [Data Bank](#)
- [Most Actives](#)
- [Gainers](#)
- [Losers](#)
- [Volume Pct. Leaders](#)
- [NYSE Highs/Lows](#)
- [NMS Highs/Lows](#)
- [DJ Average Charts](#)
- [DJIA Hour by Hour](#)
- [Map of the Market](#)

After Hours

- [Most Actives](#)
- [Leaders/Losers](#)

After Hours Other Resources

- [Earnings Digest](#)
- [Earnings Surprises](#)
- [IPO Pipeline](#)
- [IPO Pricings](#)
- [IPO Performance](#)
- [Offering Calendar](#)
- [Upgrades/Downgrades](#)

Statistics

- [Dividends](#)
- [Index Components](#)
- [Money Flow](#)
- [New Security Issues](#)
- [New Stock Listings](#)
- [Odd Lot Trading](#)
- [Short Interest](#)
- [Stock Splits](#)
- [Dow-Stocks Yields](#)