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FASTEN SEAT BELTS

By JESSICA SOMMAR

January 2, 2003 -- Battered investors, coming off a third year of bear market losses, are looking straight down the barrel of what could be another difficult year for stocks.

Right off the bat, dour jobs reports due today and tomorrow - coupled with what is expected to be a wave of fourth-quarter profit warnings - could further dampen stocks.

Although companies are still expecting positive earnings for the fourth quarter, analysts predict a slew of earnings warnings could flood the market in the early days of January.

Retailers, who suffered their worst Christmas sales season in 30 years, will probably lead the pack. But capital goods companies are expected to join the warnings queue as well.

"Capital goods profits were expected for the fourth quarter to be up 2 percent over last year, and now are estimated to end the quarter down 14 percent," said Ken Perkins, research analyst at data and information pros Thomson First Call. "It's an ominous sign."

Industrials, as the group is also known, include Caterpillar Inc., John Deere, Boeing Co., General Electric, Tyco International and Pitney Bowes Inc., among others. Perkins can't say which, if any, might issue warnings.

"The group as a whole are making products that are inputs into the industry process or construction process," Perkins explained. "A pickup here would mean that there was an increase in capital spending by corporate America, and that has yet to materialize."

Since analysts' expectations have been too high for the group, added Thomson First Call research director Chuck Hill, the guidance these companies will give concerning their earnings outlook for the first half of the year could be disheartening.

Analysts have already dropped estimates for capital goods companies from 12 percent to 2 percent for the first quarter this year, and from 7 percent to negative 1 percent in the second.

But it's not just the industrials that will suffer.

Corporate profits on the whole for the first half of the year will edge lower, bucking last year's trend of steady, gradual increases.

"The first- and second-quarter earnings will not be as good as the fourth quarter," warned Hill. "We've been on a nice track where each quarter was better than the preceding one. The change in pattern certainly looks worrisome."

Corporate profits for S&P 500 companies began last year down 11.5 percent over the previous year, but grew to 1.4 percent above the year-ago figure in the second quarter and 6.8 percent up in the third quarter. Fourth-quarter profits are anticipated to be up 15 percent over the previous year, Hill said.

By contrast, first-quarter estimates are widely anticipated to slip to 11.7 percent down, and 10.9 percent down in the second quarter. "But we think profits will come down more than that," Hill added.

Broader economic and political trends are also weighing down investors.

The threat of war with Iraq, tensions in North Korea and the Venezuelan oil strike have investors and businesses hunkering down until some of the uncertainty clears.

"It's going to be a very difficult first quarter," said Luke Mazur, chief investment officer for Highmark Capital Management. "Investors are very concerned about the war and the job situation.

"Consumer sentiment is the key to any revival in the economy," he continued. "When the job numbers come out for this month, [they] will show more of a tough time. The consumer may retrench, and that could really hurt."

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