...And Now They're Down: Rally Falters as Nasdaq Gives Back 5.99%
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... And Now They're Down: Rally Falters as Nasdaq Gives Back 5.99%

By E.S. Browning
Staff Reporter of The Wall Street Journal

The stock market's recent surge ended with a thud as the Dow Jones Industrial Average fell 1.63% and the Nasdaq Composite Index tumbled 5.99%.

Investors who had hoped that stocks would morph back into 1990s-style race cars were disappointed. The market is acting like a dune buggy again—and people are worrying that it could get stuck in the sand.

The industrial average, which had just put in its best three-day gain of the year, gave back 162.19 points to close at 9785.35. The Nasdaq composite, whose many technology stocks had seemed to be settling down, turned volatile again. It plunged 118.13 points to 1854.13. That was just slightly above its close of 1830.23 on Wednesday of last week, which was its lowest level since the late fall of 1998.

"It is not based on fundamentals at this point. It is based on the short term, and on fear," said Richard Sichel, chief investment officer at Philadelphia Trust. He said that since the Dow industrials began their sudden fall this month, he has begun getting more calls from clients, wondering whether they should get out of stocks entirely. He has been urging them to hold on.

An immediate catalyst for yesterday's selling was more bad earnings news—warnings from **Nortel Networks** and **Palm** after the close of trading on Tuesday about a weak business outlook.

But a more basic problem, said Jon Olesky, head of block trading at Morgan Stanley Dean Witter, is that many professional money managers simply don't want to be caught holding some of the riskier stocks in their portfolios when they put out their end-of-quarter statements to clients. That made them buy some of the safer-looking blue chips earlier this week; now they are racing to get out of many Nasdaq tech names.

The weakness could be seen in a wide variety of networking names, which had held up well until late last year, and which have been crumbling since. Nortel Networks fell 17% yesterday after its warning, and it wasn't alone. **Cisco Systems** fell 13%, **Juniper Networks** fell almost 17% and **Sycamore Networks** fell 15%.

The last days of any quarter and the first days of the new quarter tend to be characterized by warnings from companies that discover their quarterly earnings or their business outlooks are going to disappoint investors. Actual earnings announcements won't begin coming in until mid-April. No one knows how bad those will be, and until then, investors are being pummeled with warnings.

"I think that investors perceive that this whole earnings cycle, the preannouncements and the actual announcements, constitutes enormous, enormous risk right now," Mr. Olesky said. Many professional fund managers have decided not to get caught holding risky stocks. "If you have underperformed your benchmarks and had a bad quarter, and you also show exposure to a lot of the worst

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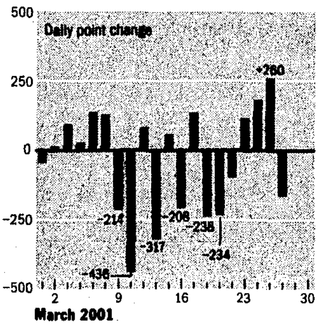
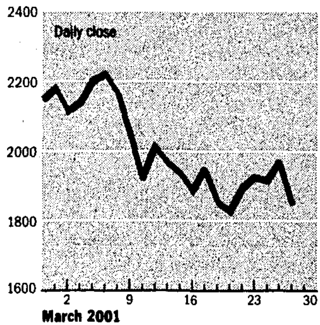
Tough Month for the Market

Moves of 200-plus points have become almost routine for the Dow Jones Industrial Average, although in percentage terms it has fared better than the Nasdaq Composite Index. The Dow is off nearly 7% so far this month, and as of yesterday's close it was down about 17% from its all-time high; the Nasdaq has fallen nearly 14% this month alone and 63% from its record high.

The Dow's big point swings...



And the Nasdaq's slide



Source: WSJ Market Data Group

Industrials Fall, Nasdaq Plummets

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sectors of the market, you just open yourself up to criticism," he said.

Treasury bonds were mixed yesterday and the dollar rose.

The sudden stock declines left some investors worrying that the brief recovery, which began late in the trading day last Thursday, was little more than a temporary bounce. The Dow Jones Industrial Average, for example, was down 13.5% from March 8 through Thursday's close. Stocks almost always bounce after such sustained falls simply because the selling runs out of steam.

Some investors concluded that the brief turnaround—the industrials were up 5.9% from Thursday's close through Tuesday—was nothing but a bear-market bounce, or a brief interlude in a longer decline. Optimists hoped that stocks were "retesting" their lows. If they avoid moving significantly below their closes of Thursday, some analysts would see that as a sign that they can rise from here.

Plenty of obstacles remain in their path. The biggest is the looming earnings season. In addition, many investors sold stocks during last year's declines, and realized profits even though the stocks were down from their highs. Now, those people owe capital-gains taxes. The period leading up to April 15 often is a rough one for stocks, as people sell stocks to raise tax money.

"What you are seeing is a market that still hasn't absorbed all the bad news," said Warren Epstein, head trader at New York brokerage firm Richard A. Rosenblatt. "With stocks like Cisco and Nortel down in price from the 80s to the teens, the bad news still isn't all priced in."

The Dow industrials are finding it difficult to stay above the 10000 level that the index first crossed, on a closing basis, on March 29, 1999. A graph of the performance since early 1999 looks more like a medical chart than a stock chart, with the index wavering up and down without getting anywhere. The industrials now have sagged to a level first reached more than two years ago.

Unlike the Nasdaq composite and the Standard & Poor's 500-stock index, however, the industrials still haven't fallen into a bear market, commonly defined as a 20% drop from a closing high. The industrials yesterday finished down 16.5% from the record hit in January of last year, while the Nasdaq is down 63% from its record and the S&P 500, which fell 2.44% yesterday, is 24.5% off its record.

Many investors warn that the road could stay rough for months.

"I think it is going to be a long, hot summer," said Bob Bissell, president of Wells Capital Management, Wells Fargo's fund-management arm, "and given that I live in California, that has special meaning. I don't think there is going to be enough of a profit rebound to give us a V-shaped recovery, which everyone is just dying for."

With the economy likely to remain weak, Mr. Bissell said, he thinks the outlook is better for bonds than for stocks right now.

Outside the U.S., stocks declined in dollar terms. The Dow Jones World Stock Index, excluding U.S. stocks, fell 1.27%, or 1.78 points, to 137.91.

In major U.S. market action:

Stocks retreated. On the Big Board, where 1.3 billion shares traded, 1,083 stocks rose and 1,977 fell.

Bonds were mixed. The 10-year Treasury note rose 7/32, or $2.19 for each $1,000 invested. The yield, which moves inversely to the bond's price, fell to 4.971%. The 30-year bond was down 6/32 to yield 5.466%.

The dollar rose. Late in New York, the currency traded at 88.64 cents to the euro and 122.25 yen, strengthening from 89.37 cents and 122.22 yen.