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Market report



Bill Barnhart

# Investors take liking to orange

Raised terror level fails to blunt rally

Published December 23, 2003

It sounds freaky, but Wall Street seems to have an eye for orange terrorism alerts.

Stocks stumbled Monday morning, after Sunday's heightened security alert by the Department of Homeland Security, but rebounded to close broadly higher.

The Dow Jones industrial average gained 59.78 points, to close at its high point of the day, 10,338.00.

"Each time you have one [alert upgrade], it has had less effect on the market," said Alexander Paris of Chicago-based Barrington Research Associates. "To have the same market effect, you have to have something bigger than before."

So far the government has issued five orange alerts. Stocks have closed higher on the first trading day after three of the alerts.

The benchmark Standard & Poor's 500 index jumped 3.5 percent after an orange alert was issued on March 17, just before the U.S.-led invasion of Iraq. Mid-March was the beginning of the 2003 stock market rally.

On May 20, the last orange alert, the S&P 500 index slipped 0.1 percent but advanced for the next five days.

Indeed, market researcher William Noble of MarketHistory.com calculated that more than half of this year's gain in the S&P 500--not counting Monday's advance--occurred during orange-alert periods.

An even greater proportion--nearly 70 percent--of the 2003 rally in retailing stocks can be pegged to orange alerts, Noble found. The S&P index of department store stocks was up slightly Monday.

On the flip side, stocks of defense contractors and biotech firms, which are believed to benefit from terrorism fears, did relatively poorly during periods of heightened alerts, Noble reported.

The seeming indifference of Wall Street to terrorism alerts might indicate complacency on the part of investors, who are enjoying the first annual gain in stocks in four years.

The market reaction also might suggest that the Department of Homeland Security suffers from the same problem as the boy who cried wolf.

More likely, investors are wary about global threats but are giving greater weight to other issues, notably the economic recovery, rebounding corporate profits, lower taxes and low inflation.

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30-yr. fixed	<b>5.594%</b>
15-yr. fixed	<b>4.921%</b>
1-yr. ARM	<b>3.52%</b>

30 yr. Fixed Rate

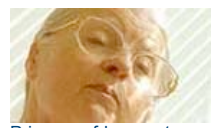
Estimated loan amount:  
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A monthly survey by the brokerage firm UBS found investor optimism at a 21-month high this month. Three-quarters of the investors surveyed said that the U.S. has entered a recovery or sustained expansion, and that the stock market will do better next year than it did this year.

The upbeat outlook for the economy has prompted a shift in investor strategies, Paris said.

He noted that in recent weeks technology stocks and small-company stocks, which led the market higher since March, have underperformed old-economy and basic materials stocks.

In the last four weeks, for example, the Dow Jones industrial average has gained nearly 7 percent, compared with a 3 percent advance by the technology-heavy Nasdaq composite index and a 4 percent gain by the Russell 2000 index of small-company stocks.

"Money is flowing from high-performance, high-risk stocks into more traditional stocks," he said. "This is probably not a short-term phenomenon."

As corporate profit growth and economic expansion appears more solid, investors feel less of a need to attempt a quick killing in hot tech or small-cap stocks, Paris said.

"I think investors have some confidence in the longevity of the recovery," he said.

Monday's action: Stocks closed broadly higher in thin trading, as Wall Street quickly bounced back from worries over the latest terrorism alert.

News of a major earthquake in California likewise created only a brief pause in the traditional Santa Claus rally.

Treasury securities, considered a refuge of safety in times of global stress, lost ground as stocks advanced.

So-called old-economy stocks, including General Motors, 3M, Honeywell International and United Technologies, led the gainers among the 30 Dow industrials. Microsoft, Intel, Altria Group and Caterpillar were among the Dow losers.

The broader S&P 500 index rose 4.28, to 1092.94; the Nasdaq composite index added 4.78, to 1955.80; the Russell 2000 index of small-company stocks edged up 2.49, to 549.37.

Ford Motor boosted its profit forecast for 2003, sending its shares up \$1.55, or more than 10 percent, to \$16.79. GM shares gained \$2.05, or more than 4 percent, to \$52.41, reflecting the upbeat Ford estimate and the completion of GM's spinoff of its stake in Hughes Electronics.

New York Stock Exchange trading volume reached 1.24 billion shares. Winners outnumbered losers by a 5-3 ratio among NYSE-listed stocks.

Nasdaq trading volume totaled 1.24 billion shares, as winners held a narrow lead over losers.

Oil slumped in New York futures trading, despite the terrorism alert. Oil for February delivery dropped \$1.15 a barrel, to \$31.87. But the dollar continued to slide to record lows against the euro.

Gold rose in New York futures trading. Gold for February delivery rose \$1.40 an ounce, to \$411.30.

Treasury auction: Interest rates slipped Monday in the latest weekly auction of 3- and 6-month Treasury bills. The discount rate for 3-month bills was 0.87 percent, down from 0.88 percent last week. The rate for 6-month bills was 0.97 percent, compared with 0.98 percent last week.

The coupon-equivalent investment rates at Monday's auction were 0.88 percent for 3-month bills and 0.99 percent for 6-month bills.

Local news: Chicago-based health-club operator Bally Total Fitness sold \$37 million of uncollected accounts for \$9 million. The sale completed the company's disposal of \$500 million in receivables.

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