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Four at Four: Get Off the Lawn

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DJIA



It isn't worth getting into why oil's rise to \$126 a barrel didn't produce this kind of reaction, [or why the move to \\$129 did](#). But stocks fell into a hole in trading Tuesday, [as investors gave up the ghost and tossed out underperformers and outperformers alike](#). Just two Dow industrial stocks finished the day higher: Oil giants [Chevron](#) and [Exxon Mobil](#). The unknown now is whether the market is exhibiting early signs of backsliding, or whether this is a natural correction from a 12% in the S&P 500 since the nadir on St. Patrick's Day. "You have to take advantage of days like this to buy stuff of decent quality that maybe got whacked on a herd mentality," says Pat Fay, head of listed trading at D.A. Davidson, who believes a lot of little things were "thrown together" to produce Tuesday's slump. **But Joseph Saluzzi, co-head of equity trading at Themis Trading, pointed out that it seemed like "in the last month it was almost as if people were ignoring a lot of the bad news," a contrast to the trend earlier in the year, when good news was sloughed off in favor of misery.**

- It's tempting to think Oppenheimer & Co. analyst Meredith Whitney is morphing into the old man down the street telling all those kids to get off his lawn — but old men like that generally have powerful hoses and big shovels. While the bump in wholesale inflation and the sudden realization of high oil prices had a big hand in the equity-market selloff, Ms. Whitney's latest missive, warning investors that the credit crisis has much further to run, certainly took its toll, judging by the 2.3% decline in the Philadelphia Stock Exchange/KBW Bank Index in trading. **"It absolutely had an effect," says Mr. Saluzzi. "There are lots of other areas where financials could be writing stuff off."** Ms. Whitney, in her note, was



taking a big-picture view of the landscape, noting that the decline in securitizations correlates well with the increase in mortgage charge-offs. "As the securitization market remains effectively closed for most asset classes, we believe more consumers will face the threat of default and banks will simply face far higher loss rates," she says.

- The nexus of the credit crunch can be seen in the collision of [Citigroup](#) Inc. and [Home Depot](#) Inc., which raised interest rates and tightened lending standards for their co-branded credit card due to rising late payments and rising defaults. The outlook for the retail economic situation worried investors from top to bottom today, as retailers as diverse as [Saks](#) Inc. and Home Depot ended the day lower after both issued [lackluster reports](#). But the credit-related news is of greater concern, because it shows that the ability to shift from debt markets closing their windows of available liquidity (*such as the fixed-rate mortgage markets*) to friendlier areas (credit cards) will become more difficult as the economic situation remains shaky. "Financial conditions are still tightening and are only beginning to affect credit-sensitive demand," wrote Richard Berner, Morgan Stanley economist, in [a commentary](#). He notes that lenders have become more cautious, and are tightening standards across all loan categories, "not just in mortgages."

- Remember those bond insurers? They certainly did not contribute anything positive to the discussion in trading. Moody's Investors Service cut the [credit ratings](#) on CIG Holding Ltd.'s bond-insurance units to junk territory, which caused spreads on credit default swaps of the large players, [MBIA](#) Inc. and [Ambac Financial Group](#), to balloon. Ambac's swaps rose to reflect a cost of \$850,000 to \$880,000 to insure \$10 million in bonds for five years from \$825,000 on Monday, according to brokerage Phoenix Partners Group. MBIA's spreads widened to about \$825,000 from \$785,000 on Tuesday, meanwhile, prompting Fil Zucchi to comment on [Minyanville.com](#) that perhaps these two companies "can be left to die a silent, inconspicuous death, now that they are seemingly out of the headlines." Ambac shares ended the day down 5.1%; MBIA dropped 4.6%.