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**Banks can't hang on to gains**

**Financial stocks rose earlier Tuesday but pulled back at the end of the day. And some analysts argue that the sector hasn't hit bottom yet.**

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Last Updated: July 15, 2008: 4:48 PM EDT

NEW YORK (CNNMoney.com) -- After a brutal session for bank stocks on Monday, it was looking like financials would finish the day higher Tuesday. It was not to be.

While some stocks held on to their gains, the overall group fell once again. And some analysts think the sector may have yet to find a bottom.

Shares of Washington Mutual (WM, Fortune 500) jumped 12% Tuesday -- just a day after an analyst warned that the Seattle-based thrift may need to "substantially" raise its loan loss reserves while one of his peers speculated whether the bank could be at risk of failure.

WaMu plunged 35% Monday but the bank issued a statement after the closing bell saying that it was adequately capitalized.

Financial services firm State Street (STT, Fortune 500) rose 7% after reporting that its second-quarter profits rose by nearly 50%, beating analysts' expectations.

But other banks continued to slide. Shares of Wachovia (WB, Fortune 500) well 8% Tuesday after widely respected Oppenheimer & Co. bank analyst Meredith Whitney downgraded shares of the Charlotte, N.C.-based bank. Wachovia was down as much as 20% during the day.

And several indexes that track financial stocks finished the day lower after flirting with gains earlier in the day. This marked the fifth consecutive day that financial stocks fell - a clear sign that the outlook for banks problems is still very much present in the minds of investors.

"There's so many problems in the financials," **Joseph Saluzzi**, co-head of equity trading at **Themis Trading**. "I think there's more to go."

Last week, fears that the government-sponsored Freddie Mac (FRE, Fortune 500) and Fannie Mae (FNM, Fortune 500) could collapse sent the broader market into a panic, raising fresh anxieties about the impact their collapse would have on the U.S. housing market and broad economy. Even the government's plan aimed at prop up the two mortgage buyers did little sooth jittery investors.

Friday's startling seizure of the troubled mortgage lender IndyMac by the Federal Deposit Insurance Corporation compounded those fears and added a new one: additional bank failures. Those fears sent shares of both WaMu and National City (NCC, Fortune 500) sharply lower Monday.

What's more, investors are going to have to wade through what is likely to be dismal second-quarter numbers from the banking sector this week.

U.S. Bancorp (USB, Fortune 500), one of the first banks to report results, revealed a bigger-than-expected decline in its earnings on Tuesday, as it tripled its provisions for loan losses. And U.S. Bancorp has been typically acknowledged as one of the more conservative banks. Shares of U.S. Bancorp fell 2.7% Tuesday.

But the bulk of the bad news is expected to surface later this week. Both Merrill Lynch (MER, Fortune 500) and Citigroup (C, Fortune 500) are expected to report another quarterly loss on Thursday and Friday respectively.

Gary Crittenden, Citigroup's chief financial officer told the *New York Times* Tuesday that it could be two to three years before the bank's returns improve significantly. Shares of Citigroup, the nation's largest bank by assets, fell to multi-year lows Tuesday.

Analysts also expect profits at other big banks, such as Wells Fargo (WFC, Fortune 500) and JPMorgan Chase (JPM, Fortune 500), to fall sharply from a year ago when they deliver their results this week.

Faced with what's likely to be disappointing results, some analysts said that it will take more time before investors can regain confidence in banks.

Oppenheimer's Whitney wrote in a note Tuesday that financial markets would not stabilize until banks address the true value of their assets and adjust their books accordingly.

"As assets have been repeatedly marked down over the past year in what seems like a constant game of 'catch up,' investors have grown understandably weary of valuations and accordingly have revalued bank stocks with significantly lower valuations," Whitney wrote.

Matthew O'Connor, who covers many of the nation's commercial banks for UBS, suggested that consolidation in the industry could help stem the crisis within the banking sector.

"Many banks still need capital (but the window seems closed) and there's increasing liquidity concerns -- which seems to leave few options for the banks. More M&A may help," O'Connor wrote in a note Monday.

One way to accomplish that would be to have the Federal Reserve offer long-term borrowing via the discount window for approved deals, noted O'Connor. ■