

# Los Angeles Times

## Stocks gain as oil drops; Fannie Mae and Freddie Mac rebound

**Broad market indexes have best gains in at least a month on a rallying dollar. The Dow adds 152 points.**

By Tom Petrino, Los Angeles Times Staff Writer  
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A combination of falling oil prices, a rallying dollar and a hint by the Federal Reserve of more financial support for banks and brokerages was enough Tuesday to stir a little fear in the stomachs of Wall Street's bears.

Stocks surged in the final two hours of very heavy trading, lifting broad market indexes to their best gains in at least a month. The rally had the scent of "short covering" -- buying by traders who were closing out previous bearish bets.

The Standard & Poor's 500 index jumped 21.39 points, or 1.7%, to 1,273.70, its biggest advance since it rose nearly 2% on June 5. The Nasdaq composite gained 51.12 points, or 2.3%, to 2,294.44.

The Dow Jones industrials added 152.25 points, or 1.4%, to 11,384.21.

Crude oil slid for a second day, and the difference Tuesday was that investors seemed to believe that the turnabout might have some legs. Crude futures in New York were off \$5.33 to \$136.04 a barrel, pushed down in part by a rebound in the dollar. (A stronger greenback can lure traders away from commodities.)

The dollar, in turn, got a boost from a wide-ranging speech Tuesday morning by Fed Chairman Ben S. Bernanke, in which he laid out the central bank's plan for strengthening financial industry regulation.

More pertinent for markets at the moment, Bernanke also said the Fed was looking at extending its emergency lending program to major securities firms into 2009, if needed. The program was put in place in mid-March, after the collapse of brokerage Bear Stearns Cos., to give securities firms a borrowing option if their peers on Wall Street cut them off.

The Fed had intended to end the special lending program in mid-September. But this obviously isn't a "mission accomplished" situation for Bernanke & Co. quite yet.

Battered financial stocks led Tuesday's rebound after their latest trouncing Monday. An index of 89 financial issues in the S&P 500 jumped 5.7%.



**Bank of America** surged \$2.01, or 9.3%, to \$23.54. **Lehman Bros. Holdings** rose \$1.43, or 6.9%, to \$22.27.

Financial issues have been heavily shorted by Wall Street's bears. In a short sale a trader borrows stock and sells it, expecting to repay the loan later with new shares bought at a lower price.

With financial stocks down drastically in the last month -- and with the news a little less grim for at least a day -- it made sense for some shorts to close out their trades by buying back the stocks, said **Joe Saluzzi**, a principal at **Themis Trading** in Chatham, N.J.

"This felt like a short-covering rally," he said, noting how the buying grew more pronounced toward the closing bell as the market failed to reverse.

Shares of **Fannie Mae** and **Freddie Mac** bounced back a day after plunging over worries the pair might need billions of dollars in fresh capital if a new accounting rule is put into effect. James Lockhart, director of the Office of Federal Housing Enterprise Oversight, which regulates the mortgage giants, played down that risk, telling CNBC on Tuesday that "an accounting change should not drive a capital change."

Fannie Mae jumped \$1.88, or 12%, to \$17.62. Freddie Mac soared \$1.55, or 13%, to \$13.46.

In other market highlights:

- \* Advancing issues outnumbered decliners by 2 to 1 on the New York Stock Exchange.
- \* The Russell 2,000 index of smaller companies rose 24.46 points, or 3.7%, to 682.72.
- \* Yields on government bonds edged lower, with the 10-year Treasury note falling to 3.88% from 3.9% late Monday.
- \* **Office Depot** plunged \$3.29, or 31.6%, to \$7.12 after the retailer disclosed a nearly 10% drop in second-quarter sales at North American stores open at least a year.
- \* **Alcoa** rose in after-hours trading. The aluminum giant posted stronger-than-expected second-quarter earnings.
- \* Stocks slid overseas before Wall Street's turn up. Indexes fell 2.5% in Britain, 1.4% in Germany and 1.5% in France.