

Stocks rally on oil slide

The Nasdaq leads the charge, thanks to Cisco's earnings and strength in Microsoft. Crude prices end lower.

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NEW YORK (CNNMoney.com) -- Stocks jumped Wednesday, ending a choppy session in positive territory, as investors welcomed falling oil prices, Cisco Systems' improved earnings and talk of a big share buyback plan at Microsoft.

The Dow Jones industrial average (INDU) and the broader Standard & Poor's 500 (SPX) index both gained around 0.3%. The tech-heavy Nasdaq composite (COMP) added 1.2%.

Stocks slumped in the morning as Freddie Mac's big quarterly loss soured sentiment, but the tone of the market began to improve near midday as oil prices retreated.

The rally hit its stride in the late afternoon.

"I think it's a continued play off of oil," said Tom Schrader, managing director at Stifel Nicolaus. "Also, people are getting more comfortable with the financial situation in the country, but the biggest thing is that commodity prices have come down so strongly."

Stocks rallied Tuesday, with the Dow gaining over 300 points, after the Federal Reserve held interest rates steady and kept the language in its statement moderate. Oil prices that fell to three-month lows added to the day's advance.

But the rally was a classic bear-market bounce, rather than something more, said **Joseph Saluzzi, co-head of equity trading at Themis Trading**. He said that although stocks could still move higher for a few sessions, he doesn't think the market has seen its lows yet.

"The macroeconomic and fundamentals of the market tell you we are going to continue to get smacked," he said.

The three major gauges have all been in a bear market since earlier this year, with the Dow the last to join the fray. A bear market is typically defined as a decline of more than 20% off the cyclical highs - in this case, the highs hit last October.

AIG (AIG, Fortune 500) slipped ahead of its quarterly earnings report, due out Wednesday evening. The insurer and Dow component is expected to have earned 63 cents per share versus a profit of \$1.77 per share.

Thursday brings the weekly initial jobless claims report and the June pending home sales report.

Oil prices: U.S. light crude oil for September delivery settled 59 cents lower at \$118.58 a barrel on the New York Mercantile Exchange, a three-month low. Prices had been even lower after the weekly oil inventories report showed gas supplies fell more than expected and crude supplies unexpectedly grew.

Crude oil prices have slipped nearly 20% since peaking above \$147 a barrel in mid-July, considerably easing the Federal Reserve's burden as it attempts to balance growth versus inflation risks. (Full story)

Freddie Mac disappoints again: Dragging on stocks in the morning was a weaker-than-expected second-quarter report from the troubled mortgage financier. Freddie also slashed its dividend and said it doubled its reserves for bad loans from the previous quarter. (Full story).

Freddie and its sister company, Fannie Mae, which together back or hold nearly half of all U.S. mortgage debt, have lost billions of dollars over the last year due to bad loans.

Both companies' stocks have been pummeled. On Wednesday, Freddie (FRE, Fortune 500) lost over 19% and Fannie (FNM, Fortune 500) - which reports Friday - fell almost 15%.

Cisco and other results: Giving the tech sector some support was Cisco (CSCO, Fortune 500), which reported better-than-expected quarterly sales and earnings late Tuesday, but also lowered its fiscal first-quarter growth forecast.

Nonetheless, investors seemed to focus on the earnings and shares rose 5.6% Wednesday.

Sprint Nextel (S, Fortune 500) reported a second-quarter loss that nonetheless topped forecasts. Shares fell over 14%.

CNNMoney.com parent Time Warner (TWX, Fortune 500) reported weaker earnings due to lower subscriber fees at its AOL online unit. However, earnings per share topped analysts' estimates. The company also said it will split AOL's dial-up Internet and advertising businesses in two. Time Warner shares ended barely changed.

Whole Foods Market (WFMI, Fortune 500) reported weaker quarterly earnings that missed estimates late Tuesday, due to acquisition costs and sluggish consumer spending. Shares fell 12.6%.

Troubled bond insurer Ambac (ABK) reported a better-than-expected net profit, although it reported an operating loss on an unadjusted basis. Shares jumped nearly 24%.

In other news, Microsoft (MSFT, Fortune 500) could buy back up to \$20 billion of its stock as a means of boosting its lagging share price, according to reports that cited a top software analyst at brokerage UBS. Shares of the Dow component gained over 3%.

In global merger news, Anglo-Swiss mining company Xstrata PLC made a \$10 billion

cash offer for Lonmin PLC, the world's No. 3 platinum producer. However, Lonmin rejected the offer as not high enough.

Market breadth was positive. On the New York Stock Exchange, winners topped losers nine to seven on volume of 1.20 billion shares. On the Nasdaq, advancers beat decliners four to three on volume of 2.24 billion shares.

Other markets: In currency trading, the dollar strengthened versus the euro and slipped against the yen.

In the bond market, Treasury prices fell, lifting the yield on the benchmark 10-year note to 4.05% from 4.02% late Tuesday.

COMEX gold for October delivery fell \$3 to settle at \$875.60 an ounce. ■

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