



Stock rally gives hope, but both are fragile; Surge could be 6th in a row to fizzle

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Panic gave way to pleasure Tuesday on Wall Street, but even the powerful 11% gain in stock prices couldn't quiet concern that this -- like all recent rallies -- could quickly flame out.

Adding to a month of nearly daily triple-digit moves, the Dow Jones industrial average surged 889 points, or 11%, to 9065 in its second-largest point gain and sixth-biggest percentage gain ever.

The gains restored \$1 trillion in stock value, taking some of the sting out of the \$6.6 trillion that has been erased from stock portfolios this year, according to the DJ Wilshire 5000. It was the first time the Dow has closed above 9000 in a week, and it came after two straight sessions in which stocks closed at new bear-market lows.

"It's about time," says Joseph Saluzzi, trader at **Themis Trading**. "It's impressive stocks have rallied."

Impressive, maybe, but analysts cautioned that this could turn out to be the sixth in a string of failed one-day rallies in less than a month that lured buyers in only to shred more wealth. "You throw money in, and then say, 'Whoa. What happened?'" says Robert Maltbie of Singular Research. For instance, the Dow rose a record 936 points on Oct. 13 and on Oct. 24 was back at a new bear-market low.

As often is the case with rallies in bear markets, stocks rose Tuesday in the face of bad news. Consumer confidence hit all-time lows in October, the Conference Board said. And home prices are down 17% over the past 12 months, according to the S&P/Case-Shiller housing index.

Stocks pushed higher anyway on signs of easing in the credit markets and optimism the Federal Reserve will cut short-term interest rates today to 1% from 1.5%. But traders said the biggest catalyst may have been fear of being left behind. "People on the sidelines are drawn into the rally thinking this is the bottom, and they don't want to miss the train," says Russ Koesterich of Barclays Global.

The recent stomach-churning volatility has forced selling by hedge funds and mutual funds. Now, though, stocks are reasonably priced by historical standards even if doomsday is factored in, Maltbie says. Investors are paying \$9.30 for every \$1 Standard & Poor's companies are expected to earn next year, says Thomson Reuters. That's close to the \$7 for every \$1 of earnings investors paid at the bottom of the 1973-74 bear market.

There's still more than a healthy dose of caution, though, as investors recall being burned all year as rallies quickly fell to waves of selling. Investors itching to keep what's left of their portfolios are selling into rallies, says Bill Gibson of Nollenberger Capital Partners. That's partly why the Dow and S&P haven't had two back-to-back up days in a month.

How markets react to the Fed's move today will be critical, Gibson says. If markets sell off into a rate cut, that doesn't bode well for the bottom to hold. And that's why investors should remain wary, Maltbie says. "You don't want to get too excited. It looks good. But it's a bear-market rally," he says.

Still, Tuesday's surge could make investors fearful of missing a surprise upside move, says Bill Stone, chief investment strategist at PNC Wealth Management. "What you need people to do is get afraid not to buy, instead of just being afraid," he says.

Recent rallies short-lived

Recent rallies short-lived As impressive as Tuesday's 10.9% rally in the Dow Jones industrials was, it follows a month-long stretch in which every rally has lasted just one day and been followed by often-massive slides.

Subsequent drop

2008 1-day gain Length Loss

Oct. 23 2.0% 2 days -5.9%

Oct. 20 4.7% 2 days -8.1%

Oct. 16 4.7% 1 day -1.4%

Oct. 13 11.1% 2 days -8.6%

Sept. 30 4.7% 8 days -22.1%