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Financial Stocks See Rally Fade Late; Morgan Stanley, Lehman Decline; Genentech Gains

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Stocks fell Monday as a rally for financial stocks like Bank of America and Fannie Mae lost steam late in the session and oil broke its losing streak.

Shares of Bank of America rose \$1.07, or 3.9%, to \$28.56. The shares initially traded at more than \$30 after the largest U.S. retail bank said second-quarter profit fell 41% from a year earlier while exceeding the Wall Street benchmark.

Fannie Mae added 73 cents, or 5.5%, to 14.13 after spiking as much as 38% at the open. Shares of Freddie Mac, the smaller of the two mortgage-finance giants, fell 43 cents, or 4.7%, to 8.75. Fannie and Freddie and many of the 17 other financial stocks on which the Securities and Exchange Commission's regulation against "naked" short selling took effect rallied at the open before paring gains.

Now the question is whether last week's reversal of fortunes for financial stocks and oil was another pause in longer-term moves down and up, respectively, or a major turning point for markets.

"The financial sector is extremely beaten up, and the energy complex is really priced up," said **Rafael Resendes, portfolio manager for the Toreador Large Cap Core Equity Fund**. "It looks to us like there is a natural reversion taking place, and we've been reducing exposure on the energy side and ratcheting up exposure on the financial side. We view the activity over last week as a microcosm of what is to come."

For example, shares of Morgan Stanley fell 2.11, or 5.5%, to 36.46; Lehman Brothers was off 79 cents, or 4.1%, to 18.32; and Goldman Sachs shed 2.06, or 1.1%, to 180.78.

American International Group rose 1.46, or 5.8%, to 26.53. Bank of America raised its rating on AIG, saying a new chief executive would likely cut back on leverage and other issues that have hurt the insurance company.

HSBC Holdings tacked on 1.85, or 2.3%, to 80.80 after reports that the Chinese government may buy a stake in the banking company.

Genentech added 12.06, or 15%, to 93.88 after Swiss drug maker Roche Holding offered to buy the 44% of the biotechnology company it doesn't already own for about \$43.7 billion.

Other drug stocks were under pressure, however. Schering-Plough fell 2.49, or 12%, to 18.95, and Merck dropped 2.35, or 6.2%, to 35.33. A new study suggested the drug makers' jointly marketed drug Vytorin failed to show benefits in people with a particular heart-valve problem.

Many of the commodities stocks that slid during the recent selloff for oil regained ground.

ArcelorMittal rose 4.04, or 5.2%, to 82.26 after it bought a coal producer to offset costs of the input for steelmaking.

American depository shares of Rio Tinto rose 19.50, or 4.9%, to 421. Fertilizer maker Mosaic added 11.92, or 9.4%, to 139.05.

Yahoo (Nasdaq) fell 78 cents, or 3.5%, to 21.67 after the Internet concern agreed to give Carl Icahn two slots on its board, resolving a protracted proxy battle.

Transalta added 4.93, or 15%, to 37.06 after shareholder LS Power Equity Partners said it agreed to take the Canadian power generator private for 39 Canadian dollars (\$38.78) a share.

Shares of American Express fell 1.29, or 3.1%, to 40.90. After the bell, the credit-card issuer bulked up its reserves and warned that customers throughout the economic scale were changing their spending behavior.