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Four at Four: The Tipping Point

Posted by David Gaffen

- **Today's lousy jobs data may have been the tipping point** for the Federal Reserve to cut interest rates by a half-percentage point come January 30, when it announces its decision after two days of deliberation at its first meeting of the year. A number of economists jumped on the report today, **revising their view of policy expectations** to call for said half-point cut, including J.P. Morgan Chase and Goldman Sachs. Economists at Goldman had already expected 0.75 percentage point of interest-rate cuts by the end of the quarter, but clarified today that they **now expect a half-point cut in January**. Friday, the February fed-funds futures contract settled on a level that prices in about 66% odds on a half-point cut, up from about 34% on Thursday. But the Fed's caution — as was pointed out today — may have already cost the market and the economy, says William Rutherford, president of Rutherford Investment Management in Portland, Ore. “The time to act on this problem was months ago, and **the Fed did make some tentative steps in this regard but probably not as much as they needed to** and we're paying the price now,” he says.



Nasdaq Comp



- It didn't turn into a triple-digit rout, **but the Nasdaq's 3.8% loss** (a 98-point drop, the largest point decline since Sept. 17, 2001, the first day of trading after 9/11) is enough to scare the tar out of anybody. While investors spent the day debating the possibility of a recession in the United States, the waning enthusiasm for large-cap technology shares suggests investors are worried about something more dismaying — a significant slowdown in worldwide growth. **The reports may be more anecdotal than**

not right now, but **Micrel** fell 21% on news that earnings will fall short due to reduced orders out of Korea and China. **Intel** declined by 8.1% on worry about chip orders and inventories. Major equity indexes in Hong Kong, the U.K., and other markets suggest a topping-out process, according to LY Advisors, and that suggests worldwide concern about growth in addition. With that in mind, the technology sector remains vulnerable. “Obviously, there is a tremendous confluence of events all pointing in a single bad direction, which is a recessionary environment, one in which people look at the current estimates for tech stocks and say, ‘Y'know, I don't see it.’” says Darren Bagwell, director of research and portfolio manager at Thrivent Asset Management. **“I don't think it's so much about valuation at these levels as not wanting to get in front of adjustments to earnings numbers that people are looking at as a fait accompli.”**

- **A 2% selloff in the Dow industrials and the Standard & Poor's 500 would** be expected to raise the level of concern among investors, but it hasn't done that — at least not to a level that some would consider evidence that the vast, panicked selling needed to restore the market's health has happened. **The Chicago Board Options Exchange Volatility Index, or the VIX, rose 7% today**, but it's currently sitting at just 24, far below levels reached in August and November, when the market went through similar bouts of selling. “This suggests to us people are complacent — they're not worried about the markets,” says Ronald Daino, managing director at LY Advisors in New York. **“That's a negative — we have to get a washout and get people real nervous before you can put in bottoms.”** Until

Still Too Complacent?

VIXO, last three months



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More fear is necessary, some believe.

then, he believes the best mantra is the one oft-heard at football games: Defense, defense, defense. No wonder the Dow Jones Utility Average ended up nearly 1% on the day.

- And then there are the banking stocks, which, next to technology names, were the **home of some of the weakest activity on the day**. With each added bit of clarity — additional writedowns, more CEOs fired — comes a bit of added hope that these stocks have indeed reached their



Are the financials breaking down? (XLF, 5 years)

trough, but it may be premature as of yet. Plenty of **recognizable financials were at 52-week lows today**, including [American Express](#), [Blackstone Group](#), [Citigroup](#), [MBIA](#) and [SLM Corp](#). Bennet Sedacca, president of Atlantic Advisors, who has remained steadily bearish on the sector (and the market in general), looks at the declines with some longing. **“Fundamentally, I’m trying to make a bullish case for financials,”** he says, but notes that it isn’t the right time yet. He notes that the XLF — the SPDRs Financial Sector ETF — fell below support levels around 28 today, closing at 27.41 today. If that continues, he believes the market will witness “people going from denial to fear.” Of course, to him, this is a buying opportunity.

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