Breaking News

Another Rough Day for the Nasdaq

By Lawrence Carrel and Rebecca Thomas
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THE NASDAQ TUMBLED again today as edgy investors pummeled the technology sector following **Motorola's** (MOT) future earnings warning and **Biogen's** (BGEN) earnings shortfall. Meanwhile, the Dow surged as investors sought shelter in blue chips.

The Nasdaq Composite sank 132.30 points, or 3.2%, to 4055.90. That drop came on the heels of yesterday's 258-point, or 5.8%, plunge — the second-largest point drop in Nasdaq history. Early in today's session, the Nasdaq tumbled 179 points to an intraday low of 4009, putting it more than 20% off its record high on March 10 and into what Wall Street calls a bear market. A midday rebound brought the Nasdaq back close to even with yesterday's close, but that soon lost strength. The Nasdaq is now down 0.3% for the year and 19% from its all-time high.

The Dow Jones Industrial Average climbed 100.52 points, or 0.9%, to 11287.08, as bargain hunters continued to find deals in blue chips. The S&P 500 index closed down 3.87 to 1500.59.

The trading day looked like a repeat of yesterday. Tim Heekin, a trader at Thomas Weisel Partners summed up the trend by telling a reporter, "Whatever you wrote about yesterday, is what's going on today. People are uncomfortable with technology and they are moving into the defensive stocks and Dow names.

"Motorola is an example of a good company that had stellar earnings and [investors] took this other stuff and they punished it like they did with **Procter & Gamble** (PG)," Heekin said."Right

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now, there is not a lot of tolerance even for the good names that have gone up to these lofty levels."

Many technology bellwethers posted significant losses. **Microsoft** (MSFT) slid $2.18 to $83.88; **JDS Uniphase** (JDSU) skidded $7.93, or 7.2%, to $102.18; **Oracle** (ORCL) sank $5.13, or 6.2%, to $77.38; **Sun Microsystems** (SUNW) slipped $3.13 to $87.88; and **Cisco Systems** (CSCO) lost $2.56 to $70. **Intel** (INTC) and **Qualcomm** (QCOM) also fell.

Coca-Cola (KO), **Honeywell International** (HON) and **3M** (MMM) topped the Dow's gainers, with pharmaceutical stocks also rising. The industrials' techs were among the biggest drags on the average: **AT&T** (T), **IBM** (IBM), **Hewlett-Packard** (HWP) and Microsoft.

Financials mostly rose. However, **Chase Manhattan** (CMB) lost $2.13 after it agreed to buy British investment bank and fund manager Robert Fleming Holdings for 4.9 billion pounds ($7.7 billion) in cash and shares.

Surprisingly, **Rite Aid** (RAD) was one of the day's big gainers, leaping 29% to $7.31. The beleaguered drugstore chain received a commitment from **Citigroup's** (C) Citibank unit for a $1 billion senior secured credit facility.

Bonds, which rallied on Nasdaq selling yesterday and early this morning, weakened as the trading progressed. The yield on the 30-year Treasury, which moves inversely to price, jumped to 5.77% from 5.66% in late trading yesterday. Ten-year Treasury yields advanced to 5.88% from 5.77% at Monday's close.

The bond market's been overbought for some time, says Tony Crescenzi, of Miller, Tabak, who attributed some of today's selling to profit-taking in general and one large sale in particular. Moreover, he says, investors have begun rotating into agency debt at the expense of Treasurys. This morning, U.S. Representative Richard Baker reiterated his proposal to tighten regulatory oversight of Fannie Mae and Freddie Mac and to remove their emergency lines of government credit. But that was old news. Baker added nothing new that would have a negative impact on agency debt, Crescenzi said.

Federal Reserve Chairman Alan Greenspan spoke this afternoon at the National Skills Summit, an all-day conference on job skills on the Washington, D.C., campus of Howard University, a historically black college. The Fed chief focused on the need for better job training in the face of rapid technological changes in the American workplace. Fears that workers would be displaced by new technology have been largely unfounded, he said. But, he added, workers remain insecure and it has been difficult to predict what kind of labor needs new discoveries will create. "We need to foster a flexible education system — one that integrates work and training and that serves the needs both of experienced workers at different stages in their careers and of students embarking on their initial course of study," he said.

The spark that sent the market reeling this morning was Motorola's conference call. However, the kindling had already been set by investors who were increasingly concerned about earnings, on top of their nervousness over technology valuations.

Motorola spoiled yesterday's positive earnings surprise with a warning about future profits. The bearish outlook sent the stock plummeting $26.75, or 18%, to $123.50, and dragged fellow telecommunications-equipment companies **Lucent Technologies** (LU), **Nortel Networks** (NT), **Ericsson** (ERICY) and **Nokia** (NOK) with it.

Motorola warned that a shift to lower-end phones would slice a chunk out of second-quarter and full-year earnings. For the second quarter, Motorola now forecasts profits of 67 cents a share, three cents below the consensus estimate according to First Call/Thomson Financial. Full-year profits are now expected to ring in at $3.14, rather than Wall Street's consensus forecast of $3.18.

That news clouded Motorola's solid earnings report. First-quarter profit surged 127% to 59 cents a share — compared with 26 cents in the year-ago quarter — and topped the Street's forecast by a penny. Revenue rose 20% to $8.77 billion on strong sales of semiconductors and cellular phones. However, operating margins in the handset business had some analysts disappointed even before this morning's warning. Lehman Brothers noted that a shift to low-end phones in Europe, component shortages and higher advertising expenses had knocked margins to a lower-than-expected 1.5% from 7% in the fourth quarter. Chase Hambrecht & Quist maintained its Buy rating on Motorola, but removed the company from its Focus List. J.P. Morgan downgraded the stock to a long-term Buy from a Buy.

Biogen was the day's other disaster, sinking 18.5%. Late Monday, the biotech bellwether reported a profit of 41 cents a share, compared with 29 cents last year. However, this was two cents below Wall Street's consensus estimate. Revenue rose 26% to $216 million, mostly because of a 33% spike in sales of Avonex, its blockbuster multiple sclerosis drug.

In the wake of Biogen's report, Salomon Smith Barney lowered its price target by $5 to $72 a share, saying there was further downside risk to its earnings estimates for this year. In lowering its estimates for earnings and Avonex sales in 2000, Credit Suisse First Boston worried that Biogen's meager new-product pipeline would weigh on investor sentiment. The firm said Biogen only has one potential product on tap for the next three years. PaineWebber and ABN Amro also downgraded the stock.

Biogen's news sent the biotech sector tumbling. The biggest loser was **Viropharma** (VPHM). The stock plunged a stunning 67.6%, or $48.50, to $23.25, after the company reported disappointing final-phase clinical trials for its experimental drug for treating viral respiratory infection in adults and viral meningitis in adults and children. J.P. Morgan and Morgan Stanley Dean Witter led the firms slashing ratings on the stock this morning.

International Paper (IP) rose slightly on its positive earnings surprise. The Dow component reported its first-quarter profit leapt to 60 cents a share from eight cents in the year-earlier period. That beat the Street's estimate by two pennies. Revenue rose to $6.4 billion from $6 billion. International Paper said the company has begun realizing benefits from its merger with Union Camp and was successfully reducing inventories and managing capacity to market demand.

Abbott Laboratories (ABT) shares rose $1.43 to $38.50 after the drug company reported solid first-quarter earnings, but disappointing sales. Profits came in at 44 cents a share, which was a penny above year-ago levels and in line with the Street's consensus estimates.

Data storage company **Seagate** (SEG) will report earnings after the close of trading this afternoon.

The earnings trend should become clearer for both New and Old Economy stocks tomorrow, when the market expects to get results from **E*Trade** (EGRP), **Enron** (ENE), **Gartner Group** (IT), **J.P. Morgan** (JPM), **Pfizer** (PFE), **Time Warner** (TWX), **Hughes Electronics** (GMH), **Advanced Micro Devices** (AMD) and **Rambus** (RMBS).