

NEWS RELEASE

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WALL STREET RETREATS AS FINANCIALS WEAKEN

By Joe Bel Bruno - Wall Street Journal

Stocks fell Tuesday after fresh worries about the stability of Lehman Brothers Holdings Inc. touched off renewed jitters about the overall financial sector.

Another drop in oil prices also weighed on the energy sector.

Wall Street's pullback comes a day after the biggest single-session rally in a month in the Dow Jones industrial average so some retrenchment might have been expected. But it was worries about Lehman that punctured a sense of optimism about the financials. Investors had been optimistic about the sector after the Treasury Department announced Sunday it would seize control of mortgage lenders Fannie Mae and Freddie Mac to stabilize the companies.

Lehman fell \$3.86, or 27 percent, to \$10.29 as investors worried that the No. 4 U.S. investment bank is having trouble finding fresh sources of capital. Investors grew worried that a possible investment from South Korea's government owned Korea Development Bank remained in doubt. The two sides are said to have called off talks, according to media reports.

Many financial companies, including Lehman, have struggled with souring mortgage debt on their books and have looked to outside sources of funding to shore up their balance sheets.

"We're back to the fundamentals again," said Denis Amato, chief investment officer at Ancora Advisors in Cleveland, referring to investors' mentality a day after sending stocks higher on news of the move to aid Fannie Mae and Freddie Mac. "These financial maneuverings don't create prosperity," he said of the government's moves. "Just because you make some financial change doesn't mean all the sudden the economy gets better."

In early afternoon trading, the Dow fell 77.60, or 0.67 percent, to 11,433.14.

Broader indexes were also fell. The Standard & Poor's 500 index declined 16.88, or 1.33 percent, to 1,250.91 and the Nasdaq composite index fell 17.33, or 0.76 percent, to 2,252.43.

The declines ate into returns logged Monday when the Dow jumped 2.6 percent, the S&P 500 rose 2.1 percent and the technology-heavy Nasdaq composite index added 0.62 percent.

Bond prices rose as stocks retreated. The yield on the benchmark 10-year Treasury note, which moves opposite its price, fell to 3.62 percent from 3.68 percent late Monday.

Light, sweet crude fell \$2.08 to \$104.26 on the New York Mercantile Exchange as Hurricane Ike appeared to be headed away from energy installations in the Gulf Coast. In addition, comments from

Saudi Arabia suggested that OPEC could decide to keep crude output steady despite worries about falling prices.

The dollar was mixed against other major currencies, while gold prices fell.

A weaker-than-expected report on pending U.S. home sales likely added to Wall Street's downbeat mood. The National Association of Realtors said its seasonally adjusted index of pending sales for existing homes fell 3.2 percent to a reading of 86.5 from an upwardly revised June reading of 89.4. The index was 6.8 percent below year-ago levels, and missed projections for a reading of 88.6.

The market's decline comes a day after investors greeted the government's plan to take over Fannie Mae and Freddie Mac with a burst of enthusiasm. Investors had been worried that the companies, which hold or back about half the nation's mortgage debt, would succumb to a spike in bad loans. Fannie Mae rose 25 cents, or 34 percent, to 98 cents, while Freddie Mac rose 2 cents to 90 cents.

Among financial names, Citigroup Inc. fell 62 cents, or 3.1 percent, to \$19.70, while Morgan Stanley fell 98 cents, or 2.3 percent, to \$42.29. Merrill Lynch & Co. declined \$1.38, or 5 percent, to \$26.21.

Energy names also lost ground as oil fell. ConocoPhillips fell \$1.72, or 2.3 percent, to \$72.97 and Schlumberger Ltd. slid \$2.07, or 2.4 percent, to \$83.94.

In corporate news, McDonald's Corp. said its same-store sales, or sales at stores open at least 13 months, rose 4.5 percent in the U.S. in August and 8.5 percent globally. Shares rose \$1.55, or 2.5 percent, to \$63.97.

The Russell 2000 index of smaller companies fell 7.75, or 1.06 percent, to 725.11.

Declining issues outnumbered advancers by about 3 to 1 on the New York Stock Exchange, where volume came to 817.3 million shares.

Overseas, Japan's Nikkei stock average fell 1.17 percent. Britain's FTSE 100 fell 0.56 percent, Germany's DAX index fell 0.48 percent, and France's CAC-40 declined 1.08 percent.