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Harriet Johnson Brackey: Money Matters

Why the bad news isn't bad enough for stock market

The market is stabilizing. And it rained last week in South Florida.

This fits the definition of news. It's a reversal of what has become normal.

Perhaps this is a two-faced trend that boosts part of one's financial life and makes you pay for it in another. The higher spirits of investors are coming at the expense of the economy.

Auto sales flopped, the number of jobs lost hit a 10-year-high and manufacturing activity fell for the ninth consecutive month.

Last week was rotten by those standards. ``The April employment figures are recession-type numbers,'' said First Union economist Mark Vitner. ``The economy is losing momentum and . . . the odds of recession have increased.''

Yet as it gets worse, pardon my grammar, the markets want to say it can't get worser.

All the bads gave way to increasing sentiment that the bottom had finally been found.

Even the recession in corporate profits, which began last year, was beginning to look a little less bad. According to First Call/Thomson Financial, on Jan. 1, the consensus estimate for first-quarter profits for the Standard & Poor's 500 was that they'd grow 5.3 percent over last year. By April 1, the consensus had fallen drastically to a negative 8.4 percent.

As of last Friday, it wasn't as bad as all that. With 87 percent of companies already reporting, earnings were down 4.5 percent from last year's first quarter. What's left to come, the consensus says, should drag the total down 6.9 percent.

Bad news in hand, Wall Street went on a race upward, or actually continued one that started the week before.

The Standard & Poor's 500 Index closed almost 15 percent ahead of its low, which was April 4, at 1,103.45.

The Nasdaq, the poor Nasdaq, is 34 percent better now than at its own low of 1,638.80 reached April 4.

The Dow Jones Industrial Average is 17 percent ahead of its low of 9,389.48, reached March 22.

The argument against this being the real bottom is equally straightforward.

It didn't get bad enough yet, in terms of pessimism, in terms of prices, says Michael O'Higgins, the Miami money manager who is the author of the Dogs of the Dow theory.

O'Higgins points out that by historical standards, stocks are still quite expensive. The current price-to-earnings ratio of a total market measure, the Wilshire 5000, was around 27. The PE on the Standard & Poor's 500 is almost 29. For the S&P, the long-term average is about 16.

For that reason, ``I don't find stocks attractive,'' he said. O'Higgins made a spectacular return last year by staying away from them and concentrating on Treasury Bonds.

And if you'll agree to the idea that we don't know a bottom until it's over, then the uptick has to be solid before we can really believe it.

The Nasdaq, down 11 percent so far this year, remains a shadow of its former self, still off more than 57 percent of the intraday high in March 2000. The other indexes, too, aren't close to the great days.

As one investor said to me this week, ``What do you mean paper losses? I had the money. It said so on my statement. Where is it now?''

Only the Dow is actually showing any gains for the year to date. A mere 1.5 percent.

The winning mutual funds for the year, through April, are value funds, according to Lipper. The growth stocks that sustained the bull market are still down.

Clearly, Wall Street's got some work to do. The question is, how quickly things might change to salvage those formerly widespread expectations that the economy would have a soft landing and profits would recover at the end of this year.

There are nine days left until the Federal Reserve meets on May

15 and there's lots of hope for yet another rate cut. President Bush is arguing that what's needed is a tax cut.

Casting a wary eye on Main Street might tell us more. ``So far there is not evidence of a sharp cutback in consumer spending,'' Merrill Lynch Chief Economist Bruce Steinberg said late Friday.

``The reaction of consumers to increased layoffs will be critical'' warned Lynn Reaser, chief economist for Bank of America Capital Management.

Herald wire services contributed to this report.