14

Bloomberg

Dow Falls to Lowest Level Since January on Greece Concern

By Rita Nazareth - May 14, 2012

U.S. stocks declined, sending the Dow Jones Industrial Average to the lowest level since January, as Greece struggled to form a new government amid growing speculation the nation may leave the European currency.

Financial and energy shares fell the most among 10 groups in the Standard & Poor's 500 Index. JPMorgan Chase & Co. (JPM) and Bank of America Corp. (BAC) sank at least 2.6 percent as European lenders slumped. Alcoa Inc. (AA) and Schlumberger Ltd. (SLB) slid more than 1.5 percent to pace declines in commodity producers. Symantec Corp. (SYMC), the biggest seller of security software, retreated 1.4 percent after Goldman Sachs Group Inc. cut its recommendation.

The S&P 500 slid 1.1 percent to 1,338.35 at 4 p.m. New York time, the lowest since Feb. 2. The Dow fell 125.25 points, or 1 percent, to 12,695.35. The Chicago Board Options Exchange Volatility Index, which measures the cost of using options as insurance against S&P 500 losses, rose 10 percent to an almost four-month high of 21.87. About 6.6 billion shares changed hands on U.S. exchanges, in line with the three-month average.

"The fear factor is definitely higher," said Madelynn Matlock, who helps oversee about $14.7 billion at Huntington Asset Advisors in Cincinnati. "The whole European (SX7P) political situation is really the focus at this point. Nobody really knows what's going to happen next and the market hates uncertainty."

Global stocks fell as Greece's political deadlock went into a second week after President Karolos Papoulias failed to secure agreement on a unity government. Alexis Tsipras, leader of Greece's Syriza party, said Europe must reexamine its policy of austerity and that his party wants Greece to stay in the euro.

Record High

Concern about Europe's crisis grew as the cost of insuring against a Spanish default jumped to an all-time high. Chancellor Angela Merkel's party was defeated in Germany's most populous state in an election that helped the Social Democrats tighten their grip on the country's regional governments. The result may embolden the Social Democrats as they align with French President-elect Francois Hollande in an anti-austerity front.

"We certainly have a lot to worry about," said John Manley, chief equity strategist for Wells Fargo Advantage Funds in New York. His firm oversees $207 billion. "The odds of Greece leaving the euro are higher. It's an enormous game of chicken that they are playing with each other. To the degree it does represent the democratic process in Greece, it makes it more likely they default and the Europeans have to do something."

American banks slumped as a measure of European lenders tumbled 2.8 percent. JPMorgan, which plunged 9.3 percent on May 11, lost 3.2 percent to $35.79. Bank of America fell 2.7 percent to $7.35. Citigroup Inc. (C) retreated 4.1 percent to $28.14.

'Renewed Focus'

JPMorgan's Matt Zames, newly appointed to lead the firm's chief investment office after it suffered a $2 billion loss, shook up the unit's leadership and announced a "renewed focus" on hedging risks. Achilles Macris, who was hired in 2006 to oversee trading in London where the losses occurred, will "transition" his CIO responsibilities, Zames said today in an employee memo obtained by Bloomberg News.

Energy and raw material producers sank as the S&P GSCI gauge of 24 commodities dropped 1.1 percent. Schlumberger lost 2.3 percent to 67.25. Alcoa fell 1.6 percent to $8.92.

Symantec slid 1.4 percent to $15.24. Goldman Sachs cut its rating to sell from neutral, citing worsening margins and cash flows. The share-price estimate was lowered to $14 from $16.

Best Buy Co. (BBY) rose 1.5 percent to $19.56. Founder Richard Schulze will step down as chairman after a probe found he failed to tell the board about allegations that then-Chief Executive Officer Brian Dunn was having an inappropriate relationship with a female employee.

Loan Agreement

Chesapeake Energy Corp. (CHK) surged 4.8 percent to $15.52. The company reached a $3 billion loan agreement with a unit of Goldman Sachs Group Inc. and affiliates of Jefferies Group Inc. to help ease a cash shortfall that threatens to curtail its development of oil and natural-gas wells.

Avon Products Inc. (AVP) rallied 3.8 percent to $20.96 as the company said it will respond within a week to Coty Inc., the perfume-maker that last week boosted its takeover offer for Avon to $10.7 billion.

Yahoo! Inc. (YHOO) rose 2 percent to $15.50. Chief Executive Officer Scott Thompson is stepping down after failing to correct errors in his credentials and the company is revamping its board, handing a victory to activist investor Daniel Loeb, who had pushed for the overhaul.

Ross Levinsohn, Yahoo's head of global media, was named interim CEO, and director Fred Amoroso will become chairman.

Facebook's IPO

Facebook Inc. (FB) plans to stop taking orders for its initial public offering tomorrow, two days ahead of schedule, according to a person with knowledge of the transaction.

Facebook will likely finish taking orders for the IPO after U.S. markets close May 15, said the person, who declined to be identified as the plans are private. The offer of 337.4 million shares at $28 to $35 each has been oversubscribed, people with knowledge of the matter said. Jonathan Thaw, a spokesman for Facebook, declined to comment.

"They're swamped with the orders that are in," said Jon Merriman, chief executive officer at investment firm Merriman Holdings Inc. in San Francisco. "They just need time to determine the price. They can send the message -- the books are closing, send in your orders now."

As individuals bail out of U.S. stocks at the fastest rate in three decades, professional speculators have cut bearish bets by the most since 2008.

Money managers are net short 19,375 contracts on the S&P 500, down 82 percent from a four-year high in September even after the figure jumped from 3,584 last week, data compiled by Bloomberg and the Commodity Futures Trading Commission show.

Most Since 1984

U.S. equity mutual funds recorded $18 billion of outflows in April, the most since at least 1984, according to preliminary data from the Investment Company Institute.

Hedge funds and other institutions are speculating the index will extend its 23 percent rally since October after 69 percent of S&P 500 companies beat first-quarter earnings estimates and economists projected accelerating U.S. growth this year. Bears say last week's addition to bets on declines show short sellers have completed almost all of the buying they are likely to do, depleting demand for equities.

"For the professional side, stocks look pretty compelling," David Goerz, chief investment officer at Highmark Capital Management Inc., said in a telephone interview from San Francisco on May 9. His firm oversees about $17 billion. "Underlying economic strength is much more resilient than anybody expected it to be this year."

To contact the reporter on this story: {Rita Nazareth} in New York at rnazareth@bloomberg.net

To contact the editor responsible for this story: Nick Baker at nbaker7@bloomberg.net

©2012 BLOOMBERG L.P. ALL RIGHTS RESERVED.