

Some Disappointing Earnings Send Markets Lower

By Javier C. Hernandez
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Just as it seemed investors were ignoring hints that companies were struggling to bring in revenue as well as other signs of economic distress, reality appeared to settle in Wednesday on Wall Street.

Another slate of disappointing earnings reports sounded an alarm among investors, dragging several sectors — energy, financial, transportation — into negative territory on Wednesday. Traders were also startled by indications that China was asking banks to stop issuing loans, rekindling fears that the global recovery could stumble.

The fast-paced downturn in stocks, coming a day after shares rallied to 15-month highs, reflected diverging views about the market's recent momentum, analysts said.

Some investors see the string of gains this year as justified and believe the recovery was on track. Others are worried by signs of weakness in fourth-quarter earnings and wondered if the market had gotten ahead of itself.

The result, analysts said, is a tug of war that turns on each fresh data point.

“This is the first time in almost a year and a half there hasn’t been a consensus opinion of what this market should do,” Randy Cass, founder of First Coverage, said. “2010 hasn’t really decided what it wants to be when it grows up.”

By Wednesday afternoon, the Dow Jones industrial average had fallen nearly 162 points, or 1.51 percent. The broader Standard & Poor's 500-stock index dropped 16.64 points or 1.52 percent, and the technology-dominated Nasdaq endured the heaviest losses, falling 41.86 points or 1.8 percent.

Renewed concern that businesses would continue to suffer deep losses helped bring shares down, investors said. Earnings season has been mixed so far, with many firms failing to satisfy Wall Street's demand that they show healthy growth in revenue, not just nimble cost-cutting.

The financial sector, saddled with heavy losses on credit cards and mortgages, continued to disappoint investors on Wednesday.

Morgan Stanley added to fears over the vitality of banks when it reported revenue in the fourth quarter of \$6.8 billion, or 29 cents in earnings per diluted share. Analysts had expected \$7.8 billion in revenue, or 36 cents a share. Shares of Bank of America, which reported a worse-than-expected loss of \$5.2 billion, rose 1.53 percent.

Despite a relatively strong earnings report, investors seemed to be demanding more from the technology sector. I.B.M. fell 3.46 percent on Wednesday, making it the Dow's worst performer. The technology giant said its net income was \$4.8 billion in the fourth quarter, or \$3.59 a share, up 10 percent from the previous year.

There were fears about the pace of the global recovery after Chinese authorities signaled on Wednesday that bank lending would slow significantly as the country tried to keep inflation in check.

Liu Mingkang, chairman of the China Banking Regulatory Commission, said he expected Chinese banks to extend loans totaling about 7.5 trillion renminbi, or \$1.1 trillion — down nearly 22 percent from the record 9.6 trillion renminbi last year. That prompted concerns that businesses might not have access to sufficient money to expand and rebuild staffing levels.

Asian markets dropped. The Nikkei index in Tokyo fell 0.25 percent, and the Hang Seng in Hong Kong declined 1.81 percent.

In Europe, markets were also down. The FTSE 100 in London fell 1.67 percent, the CAC 40 declined 2.01 percent, and the DAX in Frankfurt tumbled 2.09 percent.

Investors were also concerned by another dreary figure on the United States housing market. The pace of home construction fell 4 percent in December, the government said, during an unusually cold and wet month. Building permits, however, surged to the highest level in a year, indicating future construction would probably be more robust than expected.

Jeffrey A. Hirsch, editor of the Stock Trader's Almanac, said the market was "ripe for a pullback" after ignoring signs of weakness in fourth-quarter earnings reports and disappointing economic figures, including the country's 10 percent unemployment rate.

"The market has been pricing in a pretty robust and unwavering recovery," Mr. Hirsch said. "The sell-off today is the market coming back to the reality that it did get a little bit ahead of itself, and that we're probably going to have some struggles going forward."

Crude oil fell \$2 to \$77.02 a barrel in New York trading.