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## Investors in Financials Add Caution to the Mix

By Geoffrey Rogow  
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After months where it seemed any piece of news about Wall Street banks was perceived by the market as positive, sentiment has turned.

Thanks to better-than-expected earnings reports and hope related to the recent Federal Reserve stress tests, large banks paced the first two legs of the market's three-month rally. However, for the most part they have been laggards in the past month, with the Financial Select Sector SPDR Fund, a basket of large brokers and lenders, off 5% since May 8.

Last week was particularly noteworthy as Morgan Stanley, J.P. Morgan Chase and American Express issued secondary stock offerings, but their stocks didn't rally. In previous weeks, when banks issued secondary offerings, their stocks pushed higher - investors were thrilled the banks could tap the equity markets at all to get much-needed capital.

But raising capital, while helping the balance sheet, dilutes current shareholders and has historically been followed by a stock decline. Last week's return to this typical paradigm shows sentiment has shifted back to being skeptical on large banks, which is not-so-welcome news for their shareholders.

"There's no question the momentum in banks abated in May. Large financials didn't make any progress in the month and this new supply of shares had a real effect on that," said Phil Roth, chief technical strategist with Miller Tabak.

Mr. Roth said the worst technical patterns are for some of the money-center and regional banks, which bounced aggressively in March and April because they were oversold. In looking at their progress over those two months, he said it is important to distinguish between a percentage bounce and how much of a retracement from the bear market was actually made.

For example, Citigroup may have more than tripled from its March lows, but the company remains down more than 90% from late 2007.

As for the Financial Select Sector SPDR, which closed Monday at \$12.41, the ETF has tried and failed to break through its 200-day moving average several times in the past three months. The average also continues to point downward, "a weak picture for the long term," Mr. Roth said.

Still, for those needing to invest in financials, not all is lost.

**"People are finding plenty of positive [things] in the financial industry, but not the traditional banks," said Randy Cass, founder and vice chairman of First Coverage, which specializes in tracking investor sentiment based on sell-side research.**

**Mr. Cass notes BlackRock's stock has been particularly robust, up more than 10% in the past two weeks. Among other gainers are Travelers, which entered the Dow Jones Industrial Average on Monday, and Chubb Corp.**

Partly helping these firms, and why they are likely to continue gaining, is that new money coming into the market has had little to do with the stock moves higher, Mr. Roth said. Instead, those managers required to stay a certain percentage exposed to each sector are fueling the gains as they switch positions away from Wall Street banks, a change in sentiment that is unlikely to reverse course anytime soon.