

Blue Chips Set a Record

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By Benjamin Y. Lowe, The Philadelphia Inquirer

Oct. 4--Blue-chip stocks swept up in the high-tech revelry of the late 1990s have officially recovered from their hangover.

The Dow Jones industrial average, made groggy by a recession, terrorism, war, and a major port city underwater, reached a record high yesterday -- more than six years after its last record high -- closing at 11,727.34.

Analysts said the new mark, which eclipsed a close of 11,722.98 on Jan. 14, 2000, was a sign that the U.S. economy continued to expand despite higher interest rates, a slowing housing market, and volatile energy prices.

"As long as the economy continues to grow in real terms, then the broader-based stock market indexes should be growing as well," said Jonathan Scott, a finance professor at Temple University's Fox School of Business. "Over time, you better hope it's new records, or we're in some deep economic malaise."

The Dow had flirted with a record on May 10, when it topped out at 11,642.65. But then concerns about inflation sent the index down 8 percent in the next month.

The blue-chip index seemed poised to break through last week, but traders could not overcome lukewarm economic news. Michael Pagano, a finance professor at Villanova University's School of Business, said yesterday's dip in oil prices below \$60 a barrel pushed the index over the top.

Demand is strong, he said, but not as strong as it had been. "That means the Fed doesn't need to worry too much about inflation," Pagano said.

Crude oil, which settled at \$77.03 -- an all-time high -- on July 14, settled yesterday at \$58.68 on the New York Mercantile Exchange.

The new Dow record, however, is not adjusted for inflation. Peter D. Schiff, president of brokerage Euro Pacific Capital Inc., said the Dow would have needed to surpass 14,000 to keep pace.

"Keep the corks in the champagne bottles," said Schiff, whose firm is based in Darien, Conn. "There is a lot of inflation operating behind the scenes, and these prices are really deceptive."

The Dow rose 56.99 points, or 0.49 percent, yesterday. The S&P 500 rose 2.79, or 0.21 percent, to 1,334.11, and the Nasdaq rose 6.05, or 0.27 percent, to 2,243.65.

The S&P is down 8.9 percent since the Dow's high in 2000, and the Nasdaq is down 45 percent.

Top performers in the Dow yesterday were Boeing Co., up \$1.81, or 2.3 percent, at \$81.78, and Wal-Mart Stores Inc., up \$1.02, or 2.1 percent, at \$49.46. The index's biggest losers were Exxon Mobil Corp., down \$1.59, or 2.4 percent, at \$65.41, and Alcoa Inc., down 52 cents, or 1.9 percent, at \$27.10.

Underlying the Dow's third-quarter rally is the market's belief that high oil prices drive up prices and herald higher interest rates. Thus, investors would expect lower interest rates to accompany falling oil prices.

Lower interest rates mean lower borrowing costs -- and can mean greater profit -- for companies. High interest rates can depress stock prices because they enable investors to earn good returns on bonds and savings instruments.

Some analysts said they expected the Federal Reserve, which paused in August in its streak of raising interest rates, to lower rates next year.

"We are going to have a nice stock market for the next six to 12 months, but not a tremendous, roaring rally," said Pagano, the Villanova finance professor.

Some market-watchers caution, though, that some other everyday costs, including those for health care and education, continue to increase faster than wages and could slow the economy.

"Equity markets have gotten ahead of themselves," said Gina Martin, a financial economist at Wachovia Corp. "They seem to be ignoring some of the slowdown in growth that has evidenced itself in the last week or so, which makes me wonder how we can continue to post revenue gains from here."

The Russell 2000 index of smaller companies fell 0.46, or 0.06 percent, to 718.35.

Japan's Nikkei stock average fell 0.08 percent, Britain's FTSE 100 was down 0.35 percent, Germany's DAX index fell 0.12 percent, and France's CAC-40 lost 0.45 percent.

DOW COMPONENTS: Percentage changes for Dow components since Jan. 14, 2000.