MARKET REPORT

Eventually, the glass will be half-full

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Seasoned investors know that the stock market has a life of its own.

Basic issues, such as corporate profits, interest rates and economic trends, are reflected in stock prices, eventually. But stocks frequently follow their own drummer.

Last Friday, for example, stocks rallied sharply, despite disappointing reports on consumer confidence and retail sales--two sets of data that have been considered crucial to the market this year.

On Monday, major indexes recovered from morning losses to post modest gains, despite the scare of an apparent terrorist attack in Bali and nagging doubts about profit growth.

Oil prices jumped to about $30 a barrel Monday, after the Bali bombing. Stock analysts are busy lowering their profit projections for the fourth quarter and first quarter of 2003.

There's still plenty of bad news, but at some point investors begin to see the glass as half-full. No doubt many investors would like to borrow Thunder Stix from Anaheim Angels baseball fans and beat a rally into and beyond the World Series.

"The bear market has been steadily running out of negatives," wrote market analyst Alexander Paris of Barrington Research in Chicago.

It's happened before. Stocks jumped 40 percent in the seven months after the last major bear market ended in 1974.

Michael Painchaud, research director of Seattle-based Market Profile Theorems, sees a neat fit between the bear market of the mid-1970s and the current slump.

"There is a tremendous correlation between the two periods," he said. In 1974, stocks jumped higher in the summer and gave back gains until early December. That's when the sustained rally began. This year, stocks swooned to new lows in late July and last week.

At no point at the end of the mid-1970s bear market did investors stage a mass rush to the exit, the so-called capitulation that some analysts say must occur before prices turn higher.

"A lot of people are talking about the idea that you need a cataclysmic down move, but if you look at the 1974 market, it didn't happen that way," Painchaud said.

Painchaud noted that more speculative "growth" stocks recently have outperformed more conservative "value" stocks.

"While the market was down very dramatically, investors were not behaving in a risk-averse manner," he said. "Growth went down less than value."

Paul Nolte, market analyst at Hinsdale Associates in the western suburbs, said a few biotech and pharmaceutical stocks are showing tentative signs of life in a market that seems to want to rally.

But Nolte warned, "It will be a couple of weeks before we can declare that the bottom is in."

Monday's action: Stocks eked out modest gains in lackluster trading. Nonetheless, stocks extended their rally to a third day. The bond market was closed and trading volume in stocks was reduced by the Columbus Day holiday.

The Dow Jones industrial average rose 27.11 points, to 7877.40.

Pharmaceutical giant Merck led the Dow gainers, adding $2.30, to $49.60. A judge ruled against a rival to a heartburn drug marketed in part through Merck.

General Motors led the Dow losers, after Merrill Lynch removed its "buy" recommendations on GM, Ford and auto parts-makers Delphi and Dana. GM closed down $1.56, at $33.26.

The broader Standard & Poor's 500 index added 6.12, to 841.44. The Nasdaq composite index rose 10.06, to 1220.53. The Russell 2000 index of small-company stocks gained 1.60, to 346.53.

After the close of New York trading, software developer Unisys and home appliance-maker Maytag posted better-than-expected third-quarter profits. The next two weeks will see the largest batch of third-quarter financial reports.

New York Stock Exchange trading volume reached 1.18 billion shares. Winning stocks slightly outnumbered losers.

Nasdaq trading volume totaled 1.18 billion shares.

The Nasdaq stock exchange debuted its new systems of handling buy and sell orders. The system, called SuperMontage, is designed to compete with electronic trade matching systems, which have become popular with institutional investors.