

April rally stalls as chips, tobacco take heat

A brisk week ends with a thud as GDP numbers disappoint. So do earnings from several companies, including R.J. Reynolds. Downgrades rattle semiconductor stocks and car makers. One of the day's winners: Amazon. A survivor: AMR.

Investors took a bite out of the April rally today, as earnings warnings, downgrades and a disappointing economic report inspired a second day of profit-taking.

A week that started with earnings glee and talk of a real market turnaround ended with the two straight days of losses.

"We've been staying in a trading range for most of April ... and if we don't get a rally at the last minute today, we may have to lower some of our expectations," Robert Hardy of Fleet Specialist told CNBC.

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No late surge arrived, though you can still make the recovery case. Over the past month, the Dow is about flat but the Nasdaq and S&P 500 remain up about 3%. Since March 11, the pre-war market low point, the Dow has gained 10%, the S&P 12% and the Nasdaq 13%. And hey, the Nasdaq hit a new high for 2003 on Wednesday, though it stayed there for barely a beat.

Next week, another load of economic numbers rumble in, starting Monday with the personal income and personal spending for March. The latest consumer confidence numbers will hit the deck on Tuesday. And brace yourself for another long list of earnings announcements; to see who's up, [check our earnings calendar](#).

Friday provided plenty of worry points:

- Of the day's several economic numbers, the one getting the most attention was gross domestic profit. First-quarter GDP did rise 1.6%, but experts were looking for 2.3%. CNBC's Rick Santelli said bond traders wouldn't have been surprised by 3%.
- Earnings reports weren't particularly pleasing. A brief sample: **R.J. Reynolds Tobacco Holdings (RJR, [news](#), [msgs](#))** slashed profit estimates for the year, so investors slashed its stock price. **Emulex (EMLX, [news](#), [msgs](#))** dropped 20% on weak revenue numbers and guidance. **Sony (SNE, [news](#), [msgs](#))**, which disappointed investors with its results, dropped another 12%. Over two days, Sony has dropped from above \$33 to below \$24.
- Brokerage analysts handed out some high-profile ratings cuts. Salomon

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Nasdaq	1,540.07	+19.92
S&P	944.20	+10.79



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Smith Barney cut the semiconductor sector to "underweight" from "market weight." UBS Warburg cut **General Motors** ([GM](#), [news](#), [msgs](#)) and **Ford** ([F](#), [news](#), [msgs](#)).

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But mostly, the picture was glum. The key semiconductor index fell by 5%. Tobacco stocks were hammered as well, because of both the R.J. Reynolds announcement and a judge's decision upholding a \$10 billion-plus judgment against **Altria's** ([MO](#), [news](#), [msgs](#)) Philip Morris unit.

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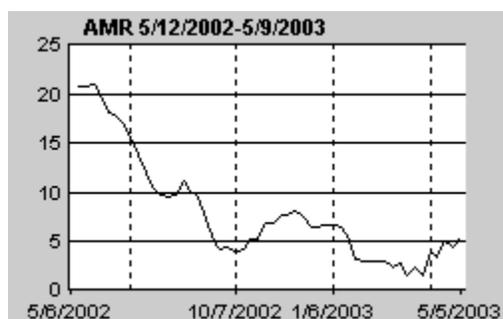
Altria was the worst of the Dow stocks for the day, but none of the 30 component stocks closed in positive ground. Winners were few among the most-heavily traded names on any of the indexes.

No day is without some winners, of course. One standout was **Amazon.com** ([AMZN](#), [news](#), [msgs](#)), which took off after announcing first-quarter results late yesterday that showed major revenue growth. The stock jumped more than \$3 to set a new 52-week high.

AMR back from the brink -- again

The other big mover among the most-active names was American Airlines' parent **AMR Corp.** ([AMR](#), [news](#), [msgs](#)), which looks to have landed short of bankruptcy court yet again.

The airlines' flight attendants union signed on to a modified wage concession plan, the last of its unions to do so. And if that sounds like déjà vu, well, it really did happen again. The unions agreed to concessions last week, but rebelled when details of an executive-perk plan surfaced.



AMR's board ousted chief Don Carty late Thursday and now want to put the latest uproar behind it. The Texas-based airline even trotted out Dallas Cowboys legend Roger Staubach, a board member, at a press conference announcing the deal.

AMR's stock took another wild ride on the day, briefly topping the \$5 level it surpassed the last time AMR narrowly avoided bankruptcy. That looks pretty good if you bought it near \$1.50 last month -- but still pretty if you bought it, well, any time before AMR's current stay at death's door.

The first SARS stock?

Concern about the mystery virus first noted in Asia and now spreading globally has found its way into several earnings reports.

But Dispatch notes the takeoff of what could be the first market play on SARS: drug maker **AVI BioPharma** ([AVII](#), [news](#), [msgs](#)), which has also been at work lately on a treatment for West Nile virus.



The London Times reported today early trials of an antiviral therapy for SARS at the U.S. National Institutes of Health have shown promise, and a drug could be available within months.

AVI's stock jumped 32% today, and perhaps we should have noticed sooner. The stock is up 140% in the past month.

Is the market too smug to rise?

MSN Money columnist Michael Brush offers this look at whether signals indicate investors may be better off in cash.

Investor overconfidence is the enemy of stock market gains because when too many investors are bullish, there may not be enough on the sidelines to drive prices higher. And right now, investors look a little too smug for comfort -- suggesting it's better to be in cash, says Phil Erlanger, a technical analyst with [erlangersqueezeplay.com](#).

Erlanger cites light short selling, which means fewer investors are placing bets that stocks will fall. Also troubling are the recent declines in the Chicago Board Options Exchange Market Volatility Index ([VIX](#)) and Nasdaq Volatility Index ([VXN](#)). Lower levels for the VIX and VXN suggest greater confidence among investors. Both recently traded at or below levels not seen since the major indices began their long slide from recent highs last May. Another potential negative for stocks: We're now moving into the typically weak May-September time frame for equities.

Despite these troubling signs, Market Profile Theorems' Michael Painchaud, thinks it is still too early to sell stocks and move to cash. "Sentiment indicators are getting a little perky," he admits. But other factors in his model still point to more upside for stocks. Measures of insider buying and selling have slipped, but they aren't suggesting it is time to sell. Earnings momentum is still positive. Interest rates are low enough to stimulate the economy. Even many sentiment indicators he tracks still aren't suggesting investors are over-confident.

"Everything has moved to the upper end of the range, but we are still not there

yet," says Painchaud. "It's close, but our model is not yet signaling a bearish condition."

-- Ron Prichard and Kim Khan

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