

# Fresh Credit-Market Worry Deflates Financials-Led Rally

By PETER A. MCKAY  
February 13, 2008; Page C1

A powerful rally fueled by strong gains for financial and industrial stocks ran out of steam late in the session amid mounting concerns about a segment of the credit markets that once had been considered safe.

The Dow Jones Industrial Average, ahead nearly 230 points at its intraday high, trimmed its gains to finish up 133.40 points, or 1.1%, to 12373.41, down 6.7% this year.

"We've been due for a rally, especially after last week," when the Dow suffered its heaviest losses in five years, said James Bianco, president of Bianco Research in Chicago. "But that doesn't mean we're out of the woods regarding all the problems we face, like the threat of recession."

Nervous investors stayed away from so-called auction-rate securities yesterday as problems spread beyond bonds backed by student loans to those backed by municipalities and other highly rated issuers, all usually considered safe. Monday of last week, there were no buyers for a total of about \$3 billion of securities tied to pools of student loans. Some auction-rate securities are backed by bond insurers that are facing possible credit-rating downgrades.

The Standard & Poor's 500-stock index ended the session up 0.7%, 9.74 points, at 1348.86, though it is still down 8.1% this year.

A government plan to aid troubled mortgage borrowers and news that Warren Buffett had offered to reinsure municipal bonds helped the financial sector, which was the strongest in the S&P, up 2.8%. But bond insurers [MBIA](#) and [Ambac Financial](#) both fell more than 15%.

Michael Farr, president of Washington money-management firm Farr, Miller & Washington, cautioned that the insurers could still be subject to nasty losses -- one reason he remains wary of financial stocks for now.

The White House-backed plan would delay foreclosures on financially strapped homeowners. [Bank of America](#), [Citigroup](#), Countrywide Financial, [J.P. Morgan Chase](#), [Washington Mutual](#) and [Wells Fargo](#) are participating in the program.

Bank of America, which will join the Dow Jones Industrial Average next week, ended the day up 1.6%, as did Citigroup, a current Dow component. Countrywide, the nation's biggest mortgage lender by loan volume, jumped 3.8%.

By the end of the day, the leading sectors also included those investors usually pile into as safe havens when they think the economy is going to remain in the doldrums -- health care, utilities and consumer staples. But prices for Treasury securities, also considered a safe haven, fell as investors bought stocks.

Dow component [General Motors](#) fell 2% after it reported a fourth-quarter net loss, although the results weren't as bad as analysts had predicted. GM also said it was offering a new round of buyouts to all 74,000 of its U.S. hourly workers who are represented by the United Auto Workers.

Traders said some of the stock-market buying yesterday appeared to come from the early covering of bearish bets ahead of Friday's expiration of options contracts.

**--Liz Rappaport contributed to this article.**