

Investors' focus shifts to 3Q earnings reports

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With earnings reports arriving in earnest this week, investors are likely to get a boost in optimism or an unpleasant surprise.

The stock market's focus this week will be companies' third-quarter earnings announcements and forecasts for the coming quarters. A surprisingly good profit report from aluminum maker Alcoa Inc. last Wednesday helped lift investors' expectations for the results being released this week, including reports from some of the nation's biggest banks.

"Financial institutions are what brought the markets to their knees," said Eric Thorne, senior vice president of Bryn Mawr Trust Wealth Management in Bryn Mawr, Pa., referring to the financial industry crisis that began with the collapse of Lehman Brothers Holdings Inc. a year ago.

"I think it's very important to see how far they've come in the last few months."

JPMorgan Chase & Co. issues its results Wednesday, followed by Goldman Sachs Group Inc., Citigroup Inc. and Bank of America Corp.

In all the corporate reports over the next three weeks, investors will be looking for signs of improvement in the economy. From the banks, investors are hoping to see some sign that consumer loan defaults, including mortgages, are starting to level off. They're also concerned that banks are now having problems with commercial real estate loans as well.

Other companies reporting next week include Google Inc., Southwest Airlines Co. and Dow Jones industrial average components such as computer chip maker Intel Corp., computer maker IBM Corp., industrial and financial conglomerate General Electric Co., and Johnson & Johnson, the world's biggest healthcare company.

If the news this week is good, the Dow may well pass 10,000 for the first time in a year. The Dow closed Friday at 9,864.94, leaving it less than 136 points from returning to five digits.

But even if the week's news isn't up to expectations, many people don't expect the reports to send stocks plunging, said Joe Heider, president of Dawson Wealth Management in Cleveland.

"If those bank earnings reports disappoint, however, you could see a small pullback of 3 percent to 5 percent," he said.

Last week, investors cheered signs that the economy is healing, including the first gain in retail sales in over a year. The major stock indexes rose 4 percent for the week, ending a two-week slide and giving them their best run since July.

This week's economic data should also provide more insight. Chief among the reports is the Federal Reserve's minutes from its Sept. 22-23 meeting. The minutes being released Wednesday may give more clues about the Fed's plans for pulling back on its stimulus measures, including near-zero interest rates.

A surprise interest rate hike by Australia's central bank last week was seen as a vote of confidence in the global economy, and that helped boost stocks. Both the European Central Bank and the Bank of England left their interest rates unchanged, still needing to help their economies recover.

"The economy is very fragile, not only the U.S. economy, but the world economy," said Benny Lorenzo, CEO of Kaufman Bros., a boutique investment banking and advisory firm based in New York. "I don't see any interest rate increases this year. We have to start seeing the economy really stop shedding jobs and get much better footing."

Unemployment, which sits at 9.8 percent and is believed to be heading to 10 percent, is considered one of the economy's biggest obstacles.

In addition to the Fed minutes, investors will get reports later in the week from the Commerce Department as it releases retail sales for September and business inventories for August, both on Wednesday.

The Labor Department releases Consumer Price Index data for September on Thursday, and a preliminary reading on consumer sentiment in October from the University of Michigan will be issued on Friday.