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November 25, 2008, 4:55 pm

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**Four at Four: Let's All Calm Down**

Posted by David Gaffen

• Three days of gains in the market are nice. In this world of whiplash, what's more important is the sharp decline in the Chicago Board Options Exchange Volatility Index, or the VIX, which closed at 60.90 Tuesday, just a few days removed from a near-80 close. The expectation for volatility is justified, **given the realized volatility on the S&P 500 has been tremendous, and the clouded economic outlook.** **"There are a lot of unanswered questions that will be answered over the next couple of months," says Gregory Hold, CEO of Hold Brothers.** As the VIX has dropped,



individual sectors have also seen their expected volatility decline as well, though in some cases more slowly than others. The Financial Select Sector SPDR ETF's implied volatility fell to 102% from 130% on the news of the Federal Reserve's plans to buy \$500 billion in mortgage-backed securities, as well as intervene in other markets. Andrew Wilkinson, senior market analyst at Interactive Brokers, said activity in Citigroup's options suggest a bit of comfort taken as a result of the new Fed plan, but that they "don't necessarily take this to mean that the bank's shares are off to the races." Citi closed up 2.2%, a more sober gain than the previous two sessions — but a gain nonetheless. Meanwhile, Merrill Lynch's commodity strategist Francisco Blanch notes that volatility has eased off a bit among energy commodities, though he warns that "the current perceptions of risk remain heavily skewed to the downside due to a deteriorating consumption environment."

 • For the markets, it was another strong session, as the Dow put together its first **three-day rally since the end of August**, led by strength in the banks, and reasonable buying in the retailers, transportation stocks, and industrial names. Investor attitudes improved along with the gains in consumer attitudes, though the rebound in consumer confidence wasn't much more than an acknowledgment that the world is not going to end in twisted wreckage in the next month or so. "Whether it was due to the collapse in gasoline prices or the good feelings about the election of a new president I can't say," writes Joel Naroff, head of Naroff Economic Advisors. "But we may be turning the corner on the irrational despondence that has gripped households for quite some time now. While people feel it is nearly impossible to get a job, **they are beginning to think it may be less so in six months.**" There will be a multitude of opportunities for investors to react to economic data Wednesday. As this week is carved up by Thanksgiving, a slew of releases are due tomorrow, including news on sales of new homes, orders for durable goods, and the Chicago-area manufacturing index. While positive reactions to strong releases are nice, David Reilly, director of portfolio strategy at Rydex Investments, says the market needs to react positively to poor data, because that would suggest investors are already discounting gloomy news. "The market still seems to be continually surprised," he says.

• Investors had a somewhat predictable reaction to the [dissolution](#) of the expected merger between miners [BHP Billiton](#) and [Rio Tinto](#). The acquirer, BHP, shot up, gaining 14.5% on the New York Stock Exchange, while Rio Tinto, the target, dropped 27.3% on the news. In this environment, the difference, not surprisingly, comes down to leverage. Rio



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**TODAY'S MARKETS**

10:45 a.m. EST

STOCKS	LAST CHANGE	%CHANGE
Dow Jones Industrials	8628.01	63.48 0.74
S&P 500	879.41	10.84 1.25
Nasdaq Composite	1533.61	25.27 1.68
Russell 2000	461.78	9.21 2.04
COMMODITIES	LAST	CHANGE
Gold, Feb	837.40	0.90
Crude Oil	45.81	1.30
TREASURYS	YIELD	CHANGE
10-Year Note	2.5243	-2/32
CURRENCIES	LAST	PRIOR DAY
Yen (per dollar)	89.9400	90.74
Euro (in dollars)	1.3752	1.3708

Source: Reuters and Dow Jones \* At close  
 Note: Closing quotes are preliminary

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Tinto has about \$44 billion in debt, while BHP has about \$12 billion, according to Bill Hunter, managing director and head of the global mining group at Jefferies & Co. The additional leverage Rio Tinto is contending with is likely to limit their flexibility. "You have low-cost assets and a good management team in Rio Tinto, but in this capital markets environment, **cash is king**," says Mr. Hunter. The \$68 billion deal was a long-awaited one, playing out over 18 months before BHP finally gave up the ghost and decided that now was not the time to absorb such a large volume of debt. While BHP writes off about \$450 million in costs from the deal, Rio Tinto, which had been resistant, may have been in a better place for such a deal to happen due to the sharp decline in commodity costs.



Automotive companies are used to worker furloughs, but not technology giant **Cisco Systems**. The company [plans on closing its U.S. and Canadian offices](#) from December 29 to January 2, and is also encouraging employees to take additional time off from December 22 through December 24, according to the Wall Street Journal, citing an internal memo. It's the first time the company has shut down in a decade, and comes after the computer networking manufacturer said revenue is likely to fall 5% to 10% in its current quarter. The company says the shutdown is part of a \$1 billion savings plan, as this will lower payroll, but when companies close their offices, they don't earn money either. UBS analysts saw the news as a warning, saying that "we believe it is **prudent for Cisco's management team to plan for cushion in the event of weaker than expected revenues**." They added that the 5% to 10% revenue decline estimate seems "realistic," at least.

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Yes, maybe the market will go down tomorrow, but at some point the market will recover. And for all the upcoming comments from the peanut gallery who wish to say otherwise:

I wish nothing but bad things for you.

Comment by Long - November 25, 2008 at [6:04 pm](#)

The VIX index has dropped and it heralds the pick-up of battered stock like Citigroup, an American icon which the US government supports. Those intending to take loans please approach Citibank and financial institutions please support Citigroup. The recovery of Citigroup is good for the American economy and has a stabilizing effect around the world. Cheers to supporters of Citigroup!!!

Comment by siew\_wah - November 25, 2008 at [6:05 pm](#)

Slightly off topic: (apologies)  
What's the best deal for an online broker for someone who only wants to play with a few hundred dollars in ETFs. Real time and low cost trades v. quality. Thank you in advance for any advice.

Comment by Anonymous - November 25, 2008 at [6:12 pm](#)

Long,

See you brokers are so touchy. Those old days are LONG gone!

Comment by Happy days are not here again - November 25, 2008 at [8:33 pm](#)

Touchy? Yeah, I want the world economy to function well. So do A LOT of people. Anyone who doesn't CLEARLY has issues.

Comment by LONG - November 25, 2008 at [9:06 pm](#)

Long:

Have you consider that "some point" maybe in 2015?

Comment by Anonymous - November 25, 2008 at [9:36 pm](#)

Where the heck has the Wizard been recently? All that is left are the members of his

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MarketBeat, led by Wall Street Journal Online writer David Gaffen, looks under the hood of Wall Street each day, finding market-moving news and analyzing interesting trends and numbers. The blog is updated several times daily with contributions from reporters at The Wall Street Journal and the Online Journal and includes noteworthy commentary from the best blogs and research notes. Have a comment? Write to [marketbeat@wsj.com](mailto:marketbeat@wsj.com).

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“Yellow Brick Road” crew. I need a laugh. I can't wait until the March opening of their comedy.

Comment by MAD HATTER - November 25, 2008 at [10:39 pm](#)

“Those intending to take loans please approach Citibank and financial institutions please support Citigroup.”

-  
I think it's great that someone is standing behind something...seriously.

-  
Unfortunately Citi has already lost the money that people gave them through investments. No point in playing the blame game...the money is gone

-  
Now Citi has our tax dollars and is encouraging people to borrow (with interest) tax dollars that were already yanked out of our pay checks. The idea is that they will pay back their billions of dollars WE loaned them, by loaning us the money and collecting interest. So we pay not once, not twice, but three times

-  
Include everyone involved in the bailout with the TRILLIONS of dollars and the bailout plan starts to look like a snake eating its own tail. I'm sorry, but I don't want to spend the rest of my life indebt to the Company Store (Citi).

-  
I think the best advice for people would be to avoid getting in debt any way possible. Yeah I know...easier said than done...BUT...it can be done.

-  
The biggest problem I've seen with the opinions shared on the crash is the lack there of.

-  
'Money is too complicated, and I just don't get it.'  
Friends, family and co-workers all seem to have the same blasé attitude. They have little to no understanding of where their money is when they invest in retirement/401k plans. I kid you not...most people I talk with think that Investing = Savings. Trying to explain the difference is like trying to teach a pig to sing...they don't want to hear anything about it.

-  
However they can recite 10 years worth of sports statistics and a show by show recount of American Idol since its initial premier.

-  
All they know is that they're doing the right thing because everyone else is doing it and everything will be okay because Uncle Sam will take care of us. In short, everything going on is somebody else's problem to fix, especially when it affects them.

-  
Whatta ya gonna do?

-  
That's my rant and I'm sticking to it.

Comment by Supposed to be working - November 26, 2008 at [11:19 am](#)

The only thing you can do, Supposed to be, gotta wake them suckers up. They don't like that, and will probably be mad at you. Have a nice holiday and think of all the good things that we still have. Enjoy a good dinner, it might be a lot different next year.

Comment by Sheep enlightener - November 26, 2008 at [9:24 pm](#)

Thank you and... good night, sleep tight and don't let the in-bed “Banks” of greed bite!

Comment by The Straw Man! - November 29, 2008 at [11:48 pm](#)

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