

Market bears down on banks, retailers

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The best proof that financial markets, and Oregon's economy, will grow more jittery lies in a measure ominously titled the "fear index."

Compiled by the Chicago Board Options Exchange, the Volatility Index, or VIX, measures stock market volatility and hints at how much the shares of large companies could swing in the next 30 days. At around 34 points early this week, the figure reached its high-

FAST FACTS

OREGON'S SMALLER COMPANIES in particular may have greater difficulty obtaining loans, some financial experts say.

est levels since October 2002.

"When it gets to 40, that shows that we have the worst anxiety possible," said Judith McGee, chairwoman of Portland-based McGee Financial Strategies Inc. "It indicates that we haven't hit the extreme bottom of the market, but we're getting close."

The VIX hitting rock bottom



CATHY CHENEY | PORTLAND BUSINESS JOURNAL

Financial planner Judith McGee thinks things may get worse before they improve.

would complete an unholy trinity, with significant local ramifications, that already includes an impending recession and a debilitating credit crisis.

Not to mention:

● Both the Dow Jones Industrial and the S&P 500 indexes, arguably

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ECONOMY: Bank, retail sectors may continue to struggle

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the two most common indicators of economy's health, are down about 10 percent this year.

● The KBW Bank Index, which measures the performances of two dozen major U.S. banks, has fallen by 18.6 percent since November.

● A popular index tracking consumer goods companies in the S&P 500 is down nearly 9 percent this year.

● Health care companies, which employ 184,000 in Oregon, have also been hammered.

The news can't get much worse for banks. Locally, Lake Oswego-based West Coast Bancorp, Oregon's second-largest bank, recorded a \$30 million loan-loss provision for the fourth quarter, an astronomical figure for a lender that collected \$179 million in 2006 revenue.

Seattle-based Washington Mutual, which has 67 local branches, recently said it could write off as much as \$8 billion in loans next year.

Worst of all, banks often tighten lending requirements during rough times, making it harder for small and midsized companies — the workhorses of the Oregon economy — to get loans.

"Businesses will have trouble getting loans to expand or to acquire new buildings and other things," said Pat Becker Jr., a vice president for Portland-based Becker Capital Management Inc. As one effect,

A CONTRARIAN VIEW

Most managers blame subprime lending issues for the stock market's downturn. With each bleak earnings report comes more uncertainty over how much money banks and other interests have actually directed toward such loans.

Some, however, say the market has overreacted to subprime issues. Subprime loans comprise a small percentage of the \$13.2 trillion U.S. mortgage market, said George Scherzer, a senior vice president with McAdams Wright Ragen Inc.'s Portland office.

But others say the loans' lack of transparency, resulting from failures to gauge exactly whether borrowers could repay the mortgages, have brought less faith in the American markets.

"A lot of false assumptions, and a lot of great bets, were made on complex instruments that were largely opaque," said Bill Harris, a portfolio manager with Portland-based Allen Trust Co. "In some cases, the very people putting money into these didn't know what it meant. But there were problems at a systemic level in judging" the loans' risk levels.

Another shoe could soon drop: Many recently issued corporate loans were made at subprime terms to risky customers, meaning banks could face further losses if they failed to properly vet the loans.

"Frankly, investment rating agencies have been asleep at the switch," he said.

— Andy Giegerich

consumer spending will slow.

That's bad news for retailers, a cornerstone of the state's economy with more than 10 percent of the state's nearly 2 million employees.

"Whereas the previous recession was about the corporate slowdown, there's no doubt this one is about the consumer slowdown," said Penny Burgess, a senior portfolio manager for McGee Financial. "Retailers are going to suffer in that environment."

The upside is that today's down sectors

make for great contrarian or longer-term investments.

For instance, George Scherzer, a senior vice president with McAdams Wright Ragen Inc.'s Portland office, and Ferguson Wellman's Ralph Cole say bank stocks, which saw steady growth over the last decade, will eventually bounce back.

"The regional banks here might have more issues and more writeoffs to come, but there's less downside risk versus upside potential," Scherzer said.

Local retail stocks could also be great in-

vestment opportunities in 2008. For instance, Columbia Sportswear, trading for around \$30 under its 52-week high of \$70.93, could provide tremendous future growth.

McGee said two other giant companies with Oregon connections, Minneapolis-based U.S. Bancorp and Santa Clara, Calif.-based Intel Corp., could also perform well in bad markets. U.S. Bank delivered 5.6 percent dividends last quarter. Intel has developed a great working relationship with market leader Apple Inc.

Money managers say such opportunities have helped clients maintain their perspective. Investors are merely concerned, as opposed to panicking. And those seeking a bit more portfolio stability might be steered to municipal bonds, metals and cash accounts such as certificates of deposit.

Still, such moves won't immediately stem fears that the market's bottom has yet to arrive. McGee said things look dire until the second part of 2008. Becker believes things won't stabilize until banks are no longer afraid to lend money.

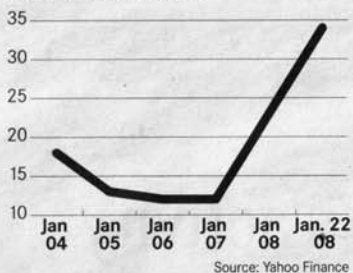
Ferguson Wellman's Cole, a senior vice president, said whenever the bottom comes, he'll be relieved.

"That would give us some time to catch our breath after the damage we've had over the last three weeks," he said. "We thought it might happen, we're just surprised it's happened this rapidly."

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Now that's volatile

The Chicago Board Options Exchange Volatility Index (VIX) measures market volatility. The so-called "fear index" hints at how much large-cap prices could move the next 30 days. On Jan. 22, the VIX ended at its highest level since October 2002.



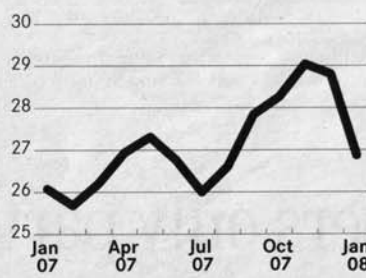
Banking on it*

Banks will likely remain the hardest hit sector during 2008. The KBW Bank Index, measures the performances of two dozen major U.S. banks.



The bare necessities*

Consumer staples companies are expected to rebound this year as Americans begin putting more of their income toward essentials such as food and gasoline. The XLP index tracks such companies as Wal-Mart Inc. and Proctor & Gamble.



The ills of health care*

Fueled by huge research advances and regular doses of bad (think Vioxx) news, health care stocks swung wildly last year. The S&P Health Care Index tracks roughly 13 percent of the group's full 500 companies.

