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Auto stocks hit new lows

GM, Ford plunge as financial outlook worsens; Dow index drops to lowest level since Sept. 2006

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Shares of General Motors Corp. and Ford Motor Co. skidded on Wall Street Thursday as stocks fell overall and the Dow dived by 3 percent to its lowest level since September 2006.

Thursday's river of red ink roared in on a flood of worries: that Detroit's Big Three automakers could be running low on cash; that financial stocks will record even more losses; that oil, which barreled over the \$140 level, will continue to rise; and that businesses from retailers to tech firms will announce weak earnings next month, slowing economic growth to the point where the country officially enters a recession.

GM led the Dow decline, plunging by \$1.38, down almost 11 percent for the day and falling to \$11.43, its lowest level in 33 years. GM had the biggest drop of any of the 30 stocks in the index, and the automaker's market capitalization slipped to just \$6.5 billion, the lowest of all stocks in the Dow Jones industrial index.

Ford shares hit a 52-week low of \$4.94 in early trading before recovering to close at \$5.07, still down 17 cents, or 3.2 percent.

Slumping auto sales have hit the automakers just as they walk a treacherous tightrope to turn around their money-losing operations. Falling sales and the shift of consumers from high-profit trucks and SUVs to cars has increased

worries about how fast the Big Three are burning through cash, although the companies all maintain they have enough money to make it through the current swoon.

GM shares downgraded

The sell-off in GM came after a Goldman Sachs analyst issued percent of its a sell recommendation for the stock, which has lost nearly 70 value in a year.

The report lowered the target for GM stock from \$19 for the year to \$11, and raised concerns that GM would need to raise cash and cut its \$1 annual dividend.

"GM stock already has declined a great deal," said David Kudla, CEO and chief investment strategist for Mainstay Capital Management in Grand Blanc, "but for a major brokerage to come out at this point with a sell rating like that caused an even more precipitous decline."

'No place to hide'

But GM and Ford weren't the only worries Thursday on Wall Street, noted David Sowerby, senior portfolio manager for Loomis, Sayles & Co., investment managers in Bloomfield Hills.

"On a day like this, there's no place to hide," Sowerby said Thursday. "The only thing that's up today is gold."

The entire Dow index was down, with a slew of financial stocks following GM into the red.

Analysts issued more concerns that financial stocks will continue to suffer amid the credit crunch, one day after the Federal Reserve halted interest rate cuts and hinted it may consider raising rates.

Other concerns came on the heels of oil topping the \$140 level, prompting investors to make a grab for gold, which climbed over \$900 an ounce.

Traders also seem nervous that second-quarter earnings -- which come out in less than two weeks -- will show the American economy is weak enough to hit the official definition of a recession.

Overall, the Dow index is now 19 percent below its record close of 14,164.53 in October. Broader stock indicators also fell sharply. The Standard & Poor's 500 dropped 38.82, about 3 percent, to 1,283.15, and the Nasdaq composite slid 79.89, or 3.3 percent, to 2,321.37.

The declines erase the gains stocks were making in this quarter, analysts said. For the April, May and June period, small-cap stocks had been up more than 10 percent, while large-cap stocks were up as much as 7 percent.

"We thought we were digging out of the first-quarter hemorrhaging," Sowerby said. "Now we've retraced the gains that were taking place. It simply is the result of this double-whammy of oil and further subprime credit write-downs."

Cash questions

Auto stocks of all kinds sank Thursday. Shares of Lear Corp. dropped over 17 percent, to \$15.15, after Goldman slapped a "sell" rating on the supplier.

Shares in Visteon Corp. dropped almost 8 percent, from \$3.09 to \$2.85, while American Axle & Manufacturing Holdings Inc. saw its share price slide by almost 15 percent, from \$10.08 to \$8.60.

The biggest cloud hovering over Detroit's Big Three automakers, though, is whether they have enough cash on hand to make it through this deepening crisis.

Privately held Chrysler LLC was forced to deny reports Thursday that it is running out of cash and may soon be forced to file for bankruptcy. Ford has leveraged nearly all its assets for its massive turnaround effort, but some analysts now say the automaker may have to turn to billionaire investor Bill Ford, for a cash infusion. Kirk Kerkorian, who's bought up 6.5 percent of Ford,

Just Monday, Bank of America said GM might need to raise as much as \$8 billion, and other analysts say that by 2010 it could go through as much as \$19 billion. GM reported in May that it held \$24 billion in cash and securities and access to about \$7 billion in U.S. loans as of March 31, at least \$6 billion more than it initially figured it would need during a U.S. decline.
