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Few Bright Lights Amid the Gloom

Rise of Just 38% Makes Chilean Fertilizer Maker the No. 1 Big-Cap Winner

By ANNELENA LOBB

There were winners amid the carnage of last year's stock market. But there weren't many, and the percentage increases they posted were substantially smaller than the triple-digit advances of recent years.

Among companies that started 2008 with a market value of \$5 billion or more, the biggest riser was [Sociedad Quimica y Minera de Chile SA](#), a Chilean fertilizer and resources concern whose American Depositary shares rose 38% in 2008 on the New York Stock Exchange. At No. 2 was [UST Inc.](#), which rose 26.6%.

"The year was terribly frightening. The market dropped at a precipitous rate," said Rich Gates, a portfolio manager at TFS Capital in West Chester, Pa. "Many investors closed out positions at any price to raise cash."

Against the backdrop of a 33.8% decline in the Dow Jones Industrial Average and a 38.5% drop in the Standard & Poor's 500-stock index, there were many losers. Financial companies took the brunt, but every sector of the market was hurt.

Some of the nation's best-known companies lost billions of dollars in market value. Shares of [General Electric Co.](#), fell 56% in 2008, translating into loss of \$209 billion in market value for the Fairfield, Conn., industrial conglomerate. [Bank of America Corp.](#), of Charlotte, N.C., and [Citigroup Inc.](#), of New York, also components of the Dow Jones Industrial Average, each lost more than \$100 billion in value. Once high-flying [Google Inc.](#), of Mountain View, Calif., lost nearly \$120 billion.

Among big decliners, one common culprit was excess leverage. After years of easy credit, many companies were left with too much debt, which resulted in write-downs when credit conditions tightened in 2008.

The biggest large-capitalization decliners of the year are like a list of U.S. government rescue targets. Mortgage giants [Fannie Mae](#) and [Freddie Mac](#) each slid about 98%, followed by New York insurer [American International Group Inc.](#), which fell 97.3%.

Over the years, Fannie and Freddie bought mortgage debt and securities that raised their exposure to risky subprime loans. When housing prices slid, those assets effectively imploded, and jittery investors sold Fannie and Freddie shares. AIG posted billions of dollars in losses, stemming mainly from problems in a unit

that sold a form of insurance against credit defaults. That set off a chain of events that nearly led AIG to file for bankruptcy-law protection.

As AIG neared collapse in September, it received an \$85 billion loan from the U.S. government. That has since been supplemented and now totals around \$150 billion. The government engineered the rescue of Fannie and Freddie earlier that month with an agreement to provide each with as much as \$100 billion in exchange for preferred stock.

Some financial companies vanished from listings entirely. Lehman Brothers Holdings Inc. filed for bankruptcy protection in mid-September; [Merrill Lynch & Co.](#) was bought by Bank of America around the same time; and Bear Stearns Cos. agreed to be acquired in March by [J.P. Morgan Chase & Co.](#)

"Financials were really overleveraged and owned a lot of illiquid, bad assets," said David Chalupnik, head of equities at First American Funds. Too much debt, he added, also hit casino operator [Las Vegas Sands Corp.](#), whose shares fell more than 94%, as well as shopping-mall developer [General Growth Properties Inc.](#), whose shares fell 97%.

The biggest gainers included several companies whose shares rose at least in part on deal news. UST, a Stamford, Conn., holding company for U.S. Smokeless Tobacco Co. and Ste. Michelle Wine Estates, is poised to be acquired by [Altria Group Inc.](#), of Richmond, Va. [Genentech Inc.](#), a South San Francisco, Calif., biotech company that is 56%-owned by [Roche Holdings AG](#), peaked in August when the Swiss drug company offered to buy the remainder. Though Genentech rejected the offer as too low, its shares still finished the year up nearly 24%.

[Wal-Mart Stores Inc.](#) rose 18% in 2008, benefitting from consumers buying low-priced goods as budgets tightened and, for a time, gasoline prices rose. Wal-Mart also topped the list of companies whose market capitalization increased, rising \$29.6 billion. "People do trade down in recessions, and Wal-Mart is a beneficiary," said Mr. Chalupnik.

The best performers among small- and midcap companies posted bigger advances, in some cases because they started the year with share prices in the single-digits and news could drive the stock sharply higher. Topping the list is [Emergent BioSolutions Inc.](#), a Rockville, Md., vaccine developer whose stock more than quintupled to \$26.11 from a little more than \$5 at the start of the year after it won a second multimillion-dollar contract in the fall to supply anthrax vaccine to the government.

[American Italian Pasta Co.](#), of Kansas City, Mo., more than tripled, which executives in a recent conference call attributed in part to increased demand for pasta, a cheaper meal, in the economic downturn.

[Almost Family Inc.](#), a Louisville, Ky., provider of home nursing care, more than doubled to \$44.98; demand for health services doesn't change much in a recession.

Some of the big losers among small- and midcap companies were in industries that faced problems even before the economy began contracting. [R.H. Donnelley Corp.](#), a Cary, N.C., yellow-pages publisher, fell nearly 99% to end at 37 cents, as advertising dollars dwindled for a troubled industry.

Another company at the mercy of economic trends was [Fleetwood Enterprises Inc.](#), a Riverside, Calif., maker of recreational vehicles, whose shares shed more than 98% to 10 cents in a year when gas prices skyrocketed for months and the recession left consumers strapped for money to spend on road trips.

But some see a silver lining in the storm. Steven Roge, portfolio manager at R.W. Roge & Co., sees opportunities to buy well-known brands cheaply, and is purchasing such stocks as Redmond, Wash., software giant [Microsoft Corp.](#) for his clients' portfolios. "In years past, you'd have to skimp on the quality of the business, maybe buy a more-levered business, but with valuations where they are, you can stick with great franchises," he said.

Lawrence Glazer, managing partner at Mayflower Advisors in Boston, says he is telling clients that some of the hardest-hit areas last year, such as commodities and emerging market stocks, may represent the best values in 2009. Companies with strong balance sheets and little debt will become more appealing to investors, he says, and given the uncertainty about how long the recession will last, stable dividend payers also could become more popular.

The coming year will be one "when confidence will have to be rebuilt," Mr. Glazer said.

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