Markets

Stock Markets Hit by Tech Selloff

Weak Economic Data From China Is Adding to Fears

By E.S. Browning

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Investors unloaded shares of once-highflying biotechnology and Internet companies Thursday over concerns that they are overvalued, pushing the Nasdaq to its worst daily decline since 2011.

Adding to those fears was more weak economic news out of China, which reported a 6.6% drop in exports and an 11.3% decline in imports in March.

Economists said the declines were exaggerated by reporting problems, but investors had expected exports to rise. The China figures were just the latest sign to U.S. investors that growth is slowing in a country that has been a major driver of the global economy.

The technology-heavy Nasdaq Composite tumbled 129.79 points, or 3.1%, to 4054.11. Sectors that escaped major declines earlier in the week were caught up in the selling, as some
short-term investors hunkered down until they could see how widespread the problems would be.

Stocks in general still aren't nearly as expensive as they were in 2000, so many investors shrugged off suggestions that they face a replay of the painful 2000-2002 bear market that was sparked by the popping tech-stock bubble.

That is one reason selling has focused mainly on the volatile Nasdaq while the Dow Jones Industrial Average, made up of more-established blue-chip stocks, has been less-affected.

The Dow Jones Industrial Average fell 266.96 points, or 1.62%, to 16170.22, its worst point and percentage decline since February. The broad S&P 500 index dropped 2.09%, or 39.10 points, to 1833.08, also its worst decline since February. The Dow, however, is only 2.5% off the record it hit at the end of December, and the S&P 500 is 3% from its record, hit earlier this month. The Nasdaq is 7% off its 52-week high, hit last month.

Among the big losers, Facebook fell 5%, Gilead Sciences lost 7.3% and TripAdvisor dropped 7%. Alexion Pharmaceuticals was the biggest decliner in the S&P 500, falling 7.5%, while Monster Beverage was another big decliner, losing 7%. Facebook is now 18% off this year’s high, while TripAdvisor is off 24%.

Some established, dividend-paying names resisted the trend, however, with AT&T rising 0.6% and Consolidated Edison up 0.3%. Many investors have flocked to the safety of U.S. Treasury debt. The yield on the benchmark 10-year U.S. note tumbled Thursday to 2.63%, down from 3% in December. Yields fall as prices rise.

After the 30% surge in the S&P 500 in 2013, money managers have warned for months that a pullback of 10% or more was overdue because it hadn’t happened since autumn 2011. Stocks began to pull back several times this year, provoking fears of a broader decline, only to recover and move higher each time.

The Nasdaq Composite Index tumbled toward its steepest one-day slide in almost 2½ years as investors resumed selling risky biotechnology and smaller technology stocks after a two-session reprieve. MoneyBeat's Steven Russolillo explains why on the News Hub. Photo: AP.

Now investors are debating whether this is the real thing.

"The market has had a hell of a run and to see people taking money off the table is not that surprising," said Henry Herrmann, chief executive officer at money-management firm Waddell & Reed Financial Inc., which oversees $133 billion in Overland Park, Kan.

Mr. Herrmann said some traders are buying options to sell stocks at prearranged prices, in case they turn lower. That means the declines may not be over, he said. He added that he wouldn't be surprised to see a 10% decline at some point this year.

One worrisome note was that the selling came despite positive news on the jobs front, as the weekly tally of new jobless claims hit a seven-year low. While some early first-quarter earnings reports have been soft, March retail sales showed improvement.

Some retailers said they expected better results in April. Economists said the economy appears to be rebounding after a severe winter.
Talk has spread that stocks again are in a bubble like the one that popped early in 2000, which back then sent the broad stock market into a long-running bear market.

Mr. Herrmann and others said that despite the talk of a bubble, there are numerous contrasts between then and now.

"People keep seeing a bubble, but the comparisons just aren't there," said Jeff Rubin, research director at Birinyi Associates in Westport, Conn.

While the selling today is being led by Internet stocks and biotechnology stocks, the similarities end there, Mr. Rubin said.

In 2000, the country was coming off a stock-market boom. Broad stock indexes had been rising at 20% annual rates for five years. The S&P 500 was trading at 29 times its component companies' earnings for the prior 12 months, Birinyi Associates calculates. Inflation was running at 3.8% and the Federal Reserve was raising interest rates in an effort to cool off the economy.

Today, inflation is running at just over 1%. The S&P 500 trades at 17 times earnings, slightly above average but far from 2000 levels. While the S&P gained 30% in 2013, it was up 13% in 2010 and 2012 and little-changed in 2011. Economic growth has been running below 3% and the Fed has been stressing how reluctant it is to raise its target interest rates any time soon.

Technology and biotech indexes are far from the overvaluations of March 2000.

The S&P 500 biotech index, for example, trades at 29 times component companies' earnings, which is above its median of 26 but far below the level of 57 at which it traded in 2000. The Morgan Stanley Technology Index trades at 22 times earnings, near its median of 23 and far from the 65 level of March 2000.

It is these differences, together with the favorable backdrops of inflation and Federal Reserve policy, that make many investors believe that the risks today are different than those of 2000, or of 2008. At the same, tolerance for risky investments is also lower, which is why so many people wouldn't be surprised to see stocks fall farther.

"I do think people have long memories. They remember pain 10 times more than they remember pleasure, and they remember the pain of the last big bubble," Mr. Herrmann said.

On Thursday, traders were unloading their riskiest stockholdings across the board to gird against potential losses during earnings season, said Ian Winer, director of trading at Wedbush Securities.

"The last thing you need is another blowup up in a stock," he said. "Guys are totally reassessing what they own."

—Chris Dieterich and Alexandra Scaggs contributed to this article.

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