ALJ

ADMINISTRATIVE PROCEEDING
FILE NO. 3-10140

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
July 16, 2002

SECURITIES & EXCHANGE COMMISSION
MAILED FOR SERVICE
JUL 17 2002

In the Matter of H.J. MEYERS & CO., INC., ROBERT SETTEDUCATI, WILLIAM MASUCCI, MICHAEL VANECHANOS, AND JAMES ALAN VILLA	: : : : : : : : :	ORDER

CTED. NO. 1st class only

Four of the five Respondents in this case have settled. The oral hearing as to the fifth Respondent has been completed and I am preparing an initial decision.

Division of Enforcement Exhibit 45

Division of Enforcement Exhibit 45 is a summary exhibit comparing the allocation of Borealis Technology Corporation (Borealis) stock to certain branch offices of H.J. Meyers & Co. (Meyers) on June 6, 1996, with the revenue generated by those branch offices for the period January through June 1996. The exhibit shows that the Chicago and San Francisco branch offices collectively were allocated 41.31% of the Borealis IPO shares, and that those two branch offices collectively generated 27.01% of the firm's revenues during the six-month period.

Based on Division of Enforcement Exhibit 11, I infer that the San Francisco branch office was allocated 33.9% of the IPO shares (800,000 out of 2,360,000) and the Chicago branch office was allocated 7.41% of the IPO shares (175,000 out of 2,360,000). However, the record does not permit any inferences about the dollar value and percentage of sales generated separately by each of these two branch offices during the period January through June 1996.

I request the Division of Enforcement (Division) to file and serve a supplemental statement by its summary witness, breaking the branch office revenue and percentage figures into their component parts. The witness is requested to present the data comparing the San Francisco branch office's revenue over the six-month period with the San Francisco branch office's share allocation, and separately, to present the data comparing the Chicago branch office's revenue over the six-month period with the Chicago branch office's share allocation.

Opposing counsel are encouraged to confer and to reach a stipulation, if possible. This request is not intended to invite additional argument of counsel. The due date for the supplemental statement will be ten days from the date of this Order.

Official Notice

Under Rule 323 of the Rules of Practice of the Securities and Exchange Commission (Commission), 17 C.F.R. § 201.323, official notice may be taken of any material fact which might be judicially noticed by a district court of the United States, any matter in the public official records of the Commission, or any matter which is peculiarly within the knowledge of the Commission as an expert body. If official notice is requested or taken of a material fact not appearing in the evidence in the record, the parties, upon timely request, shall be afforded an opportunity to establish the contrary.

The Division seeks disgorgement and a civil monetary penalty, among other sanctions, against Respondent Setteducati. Setteducati opposes these financial sanctions for several reasons, including inability to pay. In an effort to show that Setteducati's sworn financial statement is inaccurate, the Division requests that I take official notice of a quarterly survey conducted by the National Association of Realtors of median existing home price increases in Monmouth and Ocean Counties, New Jersey (Division's Proposed Findings of Fact at 46 n.7). Setteducati will be afforded an opportunity "to establish the contrary."

I also propose to take official notice of the following material facts, which appear in quarterly and annual reports and other documents filed with the Commission:

- In January 1997, Curtis Faith resigned as president and chief executive officer of Borealis (Borealis Form 10-QSB for the quarter ending March 31, 1997);

- Arsenal was first sold to the public in April 1997 (Borealis Form 10-KSB for the quarter ending March 31, 1997);

- In July 1997, in connection with a registration statement for a proposed offering of 1.4 million shares of Borealis common stock underwritten by Meyers, Borealis advised the public about the Commission's then-private investigation of Meyers. Borealis stated that any limitation of Meyers's ability to make a market in its stock as a result of that investigation could adversely impact the liquidity or trading price of its stock (Borealis Prospectus filed July 23, 1997);

- Patrick W. Grady became chairman of the board of Borealis in January 1998 and president and chief executive officer of Borealis in March 1998 (Borealis Form 10-KSB for the year ending December 31, 1997);

- In March 1998 and in August 1998, Borealis advised its shareholders that it might be unable to maintain the standards for continued quotation on the NASDAQ SmallCap Market. It stated that a likely consequence of delisting would be that its stock would become subject to the penny stock disclosure rules. Borealis warned that those rules, in turn, could have an adverse impact on the willingness of brokers to sell or make a market in its stock (Borealis

Form 10-KSB for the year ending December 31, 1997; Borealis Form 10-QSB for the quarter ending June 30, 1998);

- Borealis had over 8.7 million shares of common stock outstanding in September 1998 (Borealis Form 10-QSB for the quarter ending September 30, 1998);

- Borealis filed a Notice of Termination of Registration with the Commission on January 28, 1999, and the termination became effective on April 28, 1999 (Borealis Form 15, filed January 28, 1999; Borealis Schedule 14A, filed February 18, 1999);

- Gensym Corporation (Gensym) was delisted from the NASDAQ National Market System in August 2001. It is now posted on the electronic bulletin board, where it is subject to regulation as penny stock (Gensym Form 10-Q for the quarter ending September 30, 2001).

Because the cited documents are already on file with the Commission, and are available to the parties electronically, I have not attached copies of those documents to this Order.

Finally, I propose to take official notice of the following additional material facts, from the sources indicated:

- In 1996, venture capitalists backed approximately one out of every three initial public offerings (<u>see</u> Scott DeCarlo, Michael Schubach, and Vladimir Naumovski, <u>A Decade of New Issues</u>, Forbes, March 5, 2001, at 180-81 (reporting that 233 of 707 IPOs during 1996 were backed by venture capital); <u>Venture-Backed IPOs Begin to Rebound in 4th Quarter According to Thomson Financial/Venture Economics and the National Venture Capital Association</u>, Business Wire, January 7, 2002 (reporting that 268 of 771 IPOs during 1996 were backed by venture capital) (copies attached));

- Russell 2000 Index data for the period June 24, 1996, through July 31, 1996 (copy attached);

- The market for small-capitalization stocks as a whole dropped on July 24, 1996 (<u>see</u> Edward Wyatt, <u>NASDAQ Sinks as Investors Turn to the Blue-Chips</u>, N.Y. Times, July 25, 1996, at D1; <u>NASDAQ Drops Despite Boost from Compaq</u>, Atlanta Journal and Constitution, July 25, 1996, at 1B; Patricia Lamiell, Associated Press, <u>Stock Market Rout, Federal Settlement, Has So Far Not Deterred NASDAQ</u>, AP Worldstream, July 25, 1996 (copies attached)).

The primary purpose of taking official notice of these facts is to provide a context for understanding Borealis's price performance on July 24, 1996, as well as Borealis's price performance through August 1999. An additional purpose of taking official notice of these facts is to evaluate Dr. Jay L. Ritter's testimony about Gensym and about venture capital backing of initial public offerings during 1996. The final purpose of taking official notice of these facts is to determine whether Patrick W. Grady's involvement with Borealis after June 1996 is probative of any issue presented for decision.

The parties shall have ten days from the date of this Order to examine these matters and "to establish the contrary." This opportunity will be in the form of a written submission only. No oral testimony will be taken on these matters.

James T. Kelly
Administrative Law Judge

A Decade of New Issues

If you look at just the averages, new issues look like they were great investments in the 1990s, but the average performance is heavily skewed by a handful of exceptional stocks.

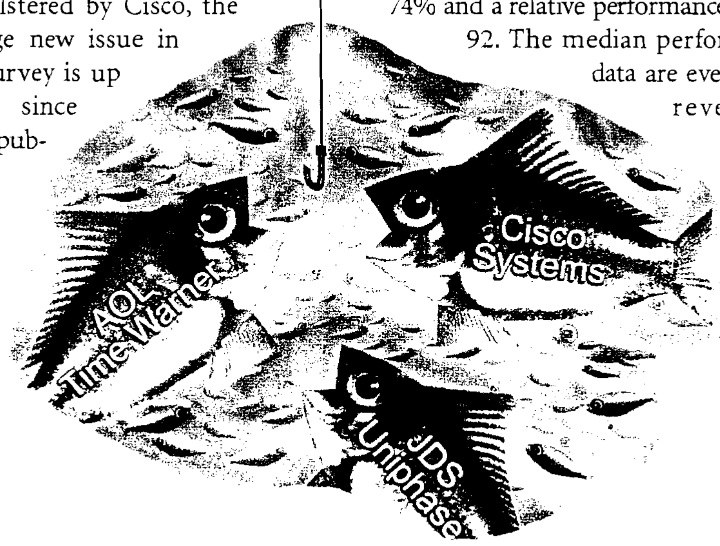
BY SCOTT DECARLO WITH MICHAEL SCHUBACH AND VLADIMIR NAUMOVSKI

STOCKS LIKE CISCO SYSTEMS are what IPO dreams are made of—and what give statisticians fits. Since going public in February 1990, at a split-adjusted 6 cents a share, Cisco is up 60,600%. That one data point tilts the whole reading on average performance of new issues. The sad truth: Even though the 1990s was a great decade for speculative stocks, most new issues did not keep up with the market.

With the help of Thomson Financial/Securities Data and Wilshire Associates we tracked the 4,567 companies that went public between Jan. 1, 1990 and Dec. 29, 2000. Our research excluded initial offerings valued at less than $5 million or below $5 a share. We also excluded foreign stocks, blind pools, real estate investment trusts, limited partnerships and closed-end funds.

Bolstered by Cisco, the average new issue in our survey is up 111% since going public. (For those issues that were acquired during the course of our study, we calculated their performance up to the day they were acquired, using the acquisition or merger price.) Measured against the S&P 500, this universe of initial public offerings has a relative performance of 104, slightly better than an S&P-matching score of 100.

But take out Cisco and the other top nine new issues—a list that includes AOL (now AOL Time Warner), JDS Uniphase and Veritas Software—and the remaining 4,557 stocks had an average gain of 74% and a relative performance of just 92. The median performance data are even more revealing:



All IPOs

If you have good connections on Wall Street, the best time to buy new issues is when the IPO market is quiet.

IPO class of	Number of issues	PERFORMANCE[1] actual	relative to S&P 500[2]
1990	109	709%	223
1991	259	239	118
1992	415	232	125
1993	540	174	106
1994	441	121	87
1995	464	99	89
1996	707	54	80
1997	484	43	95
1998	295	56	128
1999	473	19	118
2000	380	-17	90
Average		111	104

[1]Based on Dec. 29, 2000 closing price. [2]Relative performance is based on the ending value of $100 invested in each stock divided by $1 in the index. *Sources: Interactive Data Corp. via FactSet Research Systems; Thomson Financial/Securities Data; Wilshire Associates; Forbes.*

VC-Backed IPOs

Since 1990 one out of every three IPOs was backed by venture capital. This group had some big winners.

IPO class of	Number of issues	PERFORMANCE[1] actual	relative to S&P 500[2]
1990	37	1,873%	522
1991	109	309	143
1992	154	208	129
1993	194	268	143
1994	127	211	130
1995	158	205	136
1996	233	78	92
1997	116	181	186
1998	71	171	220
1999	251	45	143
2000	222	-22	85
Average		182	140

[1]Based on Dec. 29, 2000 closing price. [2]Relative performance is based on the ending value of $100 invested in each stock divided by $1 in the index. *Sources: Interactive Data Corp. via FactSet Research Systems; Thomson Financial/Securities Data; Wilshire Associates; Forbes.*

OCTAVIO DIAZ FOR FORBES

For more about the IPO winners and losers of the 1990s—including statistics on new-issue performance from the first day's close and first week's close—see our Web site for a special in-depth report. Go to **www.forbes.com/ipo/1990s** *or use your :CueCat device on the cue code (right) to take you there instantly.*

For all 4,567 stocks—including Cisco and the other nine best-performing issues—the median new issue is down 31% and has a relative-to-market score of just 40.

In short: If you bought all 4,500 stocks you made money; if you bought any four you probably lost money.

Another important thing to keep in mind: Our calculations are based on the assumption that you could have bought all these stocks at their stated offering prices. In reality, only professional money managers and well-heeled investors get into a hot deal at this price. When performance is measured against the first day's closing price, our entire universe of new issues has an 81% average gain and an average relative performance of just 86.

If you want to hunt for the next Cisco, here are two tips:

1. Look for companies backed by venture capital firms. This subset accounted for 37% (by number) of the new issues brought to market since 1990, yet they averaged a 182% gain and a relative-to-market performance of 140. It appears that venture capitalists are a bit more adroit at picking winners and nurturing upstart firms. Again, these figures are heavily weighted by a few top performers. Measured by medians, venture-capital-backed new issues have a negative 16% absolute performance and a relative-to-market score of 51.

2. Buy when the new-issues market is sluggish. Companies taken public in the first half of the 1990s, when underwriting activity was slower, performed the best. All but 4 of the 20 top-performing stocks came out before 1996, the busiest year of the decade (*see top table on opposite page*). In contrast, the new-issues market of 2000 started out in a frenzy, but ended in collapse. Last year underwriters raised $61 billion in the course of taking 380 companies public, but in its initial year the class of 2000 lost 17%, making it the worst-performing group of the previous decade. F

IPO Disasters

All these stocks had initial offerings of at least $166 million.

Company	Offer value ($mil)	Offer date
UniCapital	$532	5/14/98
NorthPoint Commun Group	360	5/5/99
Payless Cashways	357	3/8/93
AMF Bowling	263	11/3/97
American Pad & Paper	234	7/1/96
Levitz Furniture	182	7/2/93
Stage Stores	182	10/24/96
Starter	167	4/8/93
Genesis Direct	157	5/7/98
Etoys	166	5/19/99

Venture-capital-backed IPOs are in italics.
Sources: Interactive Data Corp. via FactSet Research Systems; Thomson Financial/Securities Data; Wilshire Associates; Forbes.

Biggest Underwriters of the 1990s

Goldman Sachs underwrote the richest deals, but not necessarily the best. Morgan Stanley Dean Witter, which created $43 billion in new equity capital in the last decade, has the best average relative-to-market performance.

Underwriter	Number of issues	ISSUES THAT went up	ISSUES THAT beat the market	PERFORMANCE[1] actual	PERFORMANCE[1] relative to S&P 500[2]	Total offer value ($mil)
Goldman Sachs	248	56%	40%	174%	157	$56,282
Morgan Stanley Dean Witter	253	56	38	467	238	43,395
Credit Suisse First Boston[3]	349	48	37	80	114	41,504
Merrill Lynch	185	50	33	82	102	24,224
Salomon Smith Barney	221	52	32	117	103	22,379
Deutsche Banc Alex Brown[4]	247	48	36	295	188	11,878
Lehman Brothers	148	53	37	208	151	10,783
JP Morgan[5]	203	43	33	141	132	10,217
Robertson Stephens[6]	200	46	34	161	151	8,965
Bear Stearns	84	37	27	85	95	5,399

[1]Based on Dec. 29, 2000 closing price. [2]Relative performance is based on the ending value of $100 invested in each stock divided by $1 in the index. [3]Includes offerings managed by Donaldson, Lufkin & Jenrette, acquired on Nov. 3, 2000. [4]Formerly BT Alex. Brown. [5]Includes offerings managed by Hambrecht & Quist, acquired through merger with Chase on Dec. 31, 2000. [6]Formerly BancBoston Robertson Stephens. *Sources: Interactive Data Corp. via FactSet Research Systems; Thomson Financial/Securities Data; Wilshire Associates; Forbes.*

IPO Stars of the 1990s: From Offering Price

It is only because of the superior gains of a handful of new issues—out of a universe of more than 4,500—that the average new issue of the 1990s outperformed the S&P 500.

Company/business	PRICE offer[1]	PRICE 12/29/00	Offer value ($mil)	Offer date	GAIN actual	GAIN rel to S&P 500[2]	Underwriter
Cisco Systems/network equipment	$0.06	$38.25	$50	2/16/90	60,614%	15,300	Morgan Stanley Dean Witter
AOL Time Warner[3]/media & entertainment	0.09	34.80	23	3/19/92	38,567	12,002	Deutsche Banc Alex Brown
JDS Uniphase[4]/telecom products	0.25	41.69	16	11/17/93	16,575	5,871	Unterberg Harris
Veritas Software/computer software	0.53	87.50	19	12/9/93	16,535	5,375	SG Cowen
Qualcomm/telecom products	1.00	82.19	54	12/13/91	8,119	2,393	Lehman Brothers
Network Appliance/data storage services	0.84	64.19	34	11/21/95	7,505	3,458	Lehman Brothers
Applied Micro Circuits/semiconductors	1.00	75.05	44	11/25/97	7,405	5,405	Robertson Stephens
Ascend Communications[5]/telecom services	1.63	110.68[6]	36	5/12/94	6,671	2,034	Morgan Stanley Dean Witter
Siebel Systems/computer software	1.06	67.63	33	6/27/96	6,262	3,221	JP Morgan
SDL/semiconductors	1.87	148.13	36	3/15/95	6,456	2,370	Credit Suisse First Boston

Venture capital backed IPOs are in italics. [1]Per share adjusted for splits. [2]Relative performance is based on the ending value of $100 invested in each stock divided by $1 in the index. [3]Formerly America Online. [4]Formerly Uniphase. [5]Acquired by Lucent Technologies on June 25, 1999. [6]Acquisition price. *Sources: Interactive Data Corp. via FactSet Research Systems; Thomson Financial/Securities Data; Wilshire Associates; Forbes.*

Format to Print/Save

Article 1

Return to Headlines

Venture-Backed IPOs Begin to Rebound in 4th Quarter According to Thomson Financial/Venture Economics and the National Venture Capital Association

01/07/2002
Business Wire

ALEXANDRIA, Va.--(BUSINESS WIRE)--Jan. 7, 2002--After a modest showing in the third quarter, the venture-backed IPO market rebounded decisively in the fourth quarter, as 14 U.S. venture-backed companies raised $1.45 billion, according to **Thomson Financial**/Venture Economics and the National Venture Capital Association. While down from the year-ago period, the fourth quarter was the largest quarter of 2001, in terms of both the number and dollar volume of venture-backed IPOs.

Analysis of Recent Quarters' IPOs

Quarter Ending	Number of U.S. IPOs	Number of U.S. Venture-Backed IPOs	Total Venture Backed Offer Size ($Mill)	Avg. Venture Backed Offer Size ($Mill)	Total Venture Backed Post Offer Value ($Mill)	Avg. Venture Backed Post Offer Value ($Mill)
12/31/2000	46	24	2,228.1	92.8	8,271.4	344.6
03/31/2001	31	9	650.1	72.2	2,902.3	322.5
06/30/2001	30	9	710.5	78.9	4,220.6	469.0
09/30/2001	12	5	279.9	56.0	994.6	198.9
12/31/2001	37	14	1,447.7	103.4	5,912.4	422.3

Thomson Financial/Venture Economics & National Venture Capital Association

Similar to the prior quarter, the fourth quarter's venture-backed IPOs were dominated by the Medical/Health industry. The largest of these offerings was a $170 million offering from AMN Healthcare Inc., which provides traveling nurse and respiratory therapy services. Two foreign venture-backed companies--Israel-based Given Imaging Ltd. and New Zealand-based Fisher & Paykel--also sold IPOs on the U.S. market.

"A healthy IPO market is essential for the overall good health of the venture capital industry. The hint of recovery in the 4th quarter bodes well for strong entrepreneurial companies looking to the public markets to help finance their ongoing development," commented Mark G. Heesen, president of the National Venture Capital Association. "A healthy IPO market also bodes well for entrepreneurial companies looking for venture financing as more capital will become available for new investments as venture capitalists free up their reserves as liquidity options become more readily available."

The year ended with 37 venture-backed IPOs from U.S. companies for a total offer size of $3.2 billion, down significantly from the prior year's record volume of $21.08 billion but close to the $3.6 billion raised in 1998. The average offer size in 2001 was $87.3 million, compared with $93.3 million in 2000, while the average post-offer value was $407.5 million, compared with $470.5 million in 2000.

"I view the current state of the IPO market as relatively good news. We have been stating for several quarters that the IPO market is one of the important pulse points of the heartbeat of the venture industry," commented Jesse Reyes, vice president, Venture Economics. "Liquidity continues to be a paramount concern to practitioners; however, it does appear that companies going public now are much healthier than their brethren of a few quarters or years ago. The mantra of the industry now stresses quality over quantity of deals. To that end, the current trends appear to provide optimistic news that the industry is now focused on b2b--as in `back to business' as usual. We expect the pace of IPO offerings to increase this year as the economy and the technology industry recover from the two-year economic downturn."

Analysis of Recent Year's IPOs

Year	Number of U.S. IPOs	Number of U.S. Venture-Backed IPOs	Total Venture Backed Offer Size ($Mill)	Avg. Venture Backed Offer Size ($Mill)	Total Venture Backed Post Offer Value ($Mill)	Avg. Venture Backed Post Offer Value ($Mill)
1996	771	268	11,605.6	43.1	56,123.0	208.6
1997	519	131	4,704.5	35.9	20,838.8	159.1
1998	337	75	3,623.9	48.3	16,837.4	224.5
1999	508	233	17,804.7	76.4	114,864.6	493.0
2000	351	226	21,077.1	93.3	106,324.3	470.5
2001	110	37	3,230.6	87.3	15,078.5	407.5

Fourth Quarter Venture-Backed IPO Deals 1996-2001

Year	Number of Q4 U.S. IPOs	Number of Q4 U.S. Venture-Backed IPOs	Total Venture Backed Offer Size ($Mill)	Avg. Venture Backed Offer Size ($Mill)	Total Venture Backed Post Offer Value ($Mill)	Avg. Venture Backed Post Offer Value ($Mill)
1996	219	72	2,469.1	34.3	8,701.1	120.9
1997	158	36	1,396.2	38.8	5,374.1	149.3
1998	42	9	399.1	44.3	1,451.0	161.2
1999	148	79	6,782.0	88.1	45,493.4	590.8
2000	46	24	2,228.1	92.8	8,271.4	344.6
2001	37	14	1,447.7	103.4	5,912.4	422.3

The "Offer" amount refers to the number of shares offered to the public via the IPO times the share price of the stock when issued. The Post Valuation amount is calculated by multiplying the total number of shares by the share price of the stock when issued. Any price movement in the public markets after the shares are issued is not reflected. Example: If ABC issues 10M shares out of its 50M shares at $10 per share, the offer price is $100M and the valuation placed upon the company by the markets is $500M.

The Venture Economics Post-Venture Capital Index (PVCI) is a market cap weighted index of the performance of stock of all venture-backed companies taken public over the last 10 years. As the index indicates at the end of Q2 2001, aftermarket performance of venture-backed companies was subject to the effects of market volatility this past year. Much of this market turbulence can be attributed to the downturn of Internet stock performance and the almost record-breaking number of private companies hitting the public realm in 1999 and early 2000.

Venture Economics Post-Venture Capital Index (PVCI)
Annualized Return as of 12/31/2001

	Index Value	Year to Date	Three Year Return	Five Year Return	Ten Year Return
PVCI	542.8	-29.0%	-8.4%	2.8%	9.4%
S&P	1148.1	-13.0%	-2.2%	9.2%	10.7%
NASDAQ	1951.1	-21.0%	-3.8%	8.6%	12.8%

DOW	10021.5	-7.1%	3.0%	9.2%	12.2%

Thomson Financial/Venture Economics & National Venture Capital Association

The National Venture Capital Association (NVCA) represents more than 450 venture capital and private equity firms. The NVCA's mission is to foster the understanding of the importance of venture capital to the vitality of the U.S. and global economies, to stimulate the flow of equity capital to emerging growth companies by representing the public policy interests of the venture capital and private equity communities at all levels of government, to maintain high professional standards, to facilitate networking opportunities, and to provide research data and professional development for its members. For more information about the NVCA, please visit www.nvca.org.

Venture Economics, a **Thomson Financial** company, is the foremost information provider for equity professionals worldwide. Venture Economics offers an unparalleled range of products from directories to conferences, journals, newsletters, research reports, and the Venture Expert(TM) database. For over 40 years, Venture Economics has been tracking the venture capital and buyouts industry. Since 1961, it has been a recognized source for comprehensive analysis of investment activity and performance of the private equity industry. Venture Economics maintains long-standing relationships within the private equity investment community, in-depth industry knowledge, and proprietary research techniques. Private equity managers and institutional investors alike consider Venture Economics information to be the industry standard. For more information about Venture Economics, please visit www.ventureeconomics.com.

CONTACT: NVCA Jeanne Metzger, 703.524.2549, jmetzger@nvca.org or VE Joshua Radler, 973-353-7139, joshua.radler@tfn.com

10:53 EST JANUARY 7, 2002

Display as: Full Article Return to Headlines

Format to Print/Save

CBOE RUSSELL 2000 INDEX: 2000 INDEX

Pricing History Report

Symbol: RUT.I
CUSIP Number: 12483510
Exchange: Market or Industry Indexes
Type: Index

Daily Prices From: 6/24/1996 to 7/31/1996

Date	High	Low	Close
6/24/1996	347.19	345.16	346.82
6/25/1996	347.46	344.23	344.44
6/26/1996	344.44	339.79	339.81
6/27/1996	341.96	339.28	341.95
6/28/1996	347.00	341.95	346.61
7/1/1996	347.75	346.34	347.72
7/2/1996	347.83	346.76	346.94
7/3/1996	346.94	344.73	344.80
7/4/1996	N/A	N/A	N/A
7/5/1996	344.80	339.72	339.78
7/8/1996	339.78	336.25	336.68
7/9/1996	337.37	336.20	336.44
7/10/1996	336.47	331.34	332.71
7/11/1996	332.71	322.58	324.58
7/12/1996	325.11	322.65	323.69
7/15/1996	324.02	314.55	314.72
7/16/1996	314.72	303.04	310.12
7/17/1996	318.26	310.12	318.19
7/18/1996	323.20	318.18	322.92
7/19/1996	323.26	320.49	321.54
7/22/1996	321.55	317.48	317.65
7/23/1996	318.30	311.61	311.72
7/24/1996	311.72	305.12	307.77
7/25/1996	311.58	307.77	311.58

7/26/1996	314.58	311.57	314.57
7/29/1996	315.00	313.11	313.12
7/30/1996	314.34	312.54	313.54
7/31/1996	316.03	313.54	316.00

New Report | Modify Report Criteria

The New York Times

July 25, 1996, Thursday, Late Edition - Final

SECTION: Section D; Page 1; Column 2; Business/Financial Desk

LENGTH: 1047 words

HEADLINE: Nasdaq Sinks as Investors Turn to the Blue-Chips

BYLINE: By EDWARD WYATT

BODY:

Small-company stocks, which for more than 18 months acted as the engine of growth for the stock market, mutual funds and the economy as a whole, continued to erode yesterday, as investors turned further away from that increasingly volatile sector of the market in favor of blue chips.

That brought the decline in the Nasdaq composite index, the most-watched barometer of high-growth companies, to 16.6 percent for the seven weeks since June 5, when the index closed at its highest lever ever. The decline is more than twice that of the Dow industrials over the same period.

But while the Nasdaq market is dominated by well-known companies like Microsoft and Intel, the slippage has spread far beyond technology stocks, which have gained much of the attention. Indeed, several other sectors, among them some of the fast-growing industries favored by the managers of recently hot mutual funds, have borne the brunt of the decline.

Many of the dozens of industrial sectors that make up the Nasdaq index have performed worse than technology, according to an analysis of the Nasdaq performed for The New York Times by Birinyi Associates, a Greenwich, Conn., research firm. Among the poorest performers are transportation companies and retailers, as well as makers of pharmaceuticals and electrical equipment.

"Technology stocks have been the favorite whipping boy in the market, but the selloff has not been confined to them," said L. Keith Mullins, a managing director at Smith Barney who specializes in emerging-growth stocks.

In some cases, poor earnings contributed to the decline, he said. But many more stocks have fallen simply because their "concepts" have fallen out of favor, because their share prices rose too quickly in the last 18 months, or because the sectors are no longer being viewed as safe havens.

Yesterday, the Nasdaq composite index fell for a fourth straight session, dropping 6.70 points, to 1,042.37. Combined with a stunning 3 percent decline on Tuesday, this week's selloff left the small-stock average nearly 1 percent below the level where it started 1996.

The blue chips, as measured by the Dow Jones industrial average, eked out a gain of 8.14 points yesterday, after falling more than 50 points in the first 10 minutes of trading, to close at 5,354.69. The Standard & Poor's 500-stock index, in contrast, fell 0.22 point, to 626.65.

Both of those indexes have fallen sharply in the last seven weeks and are substantially below their record high levels, set in May. The Dow industrials finished 7.3 percent below their record close of 5,778, set on May 22. Two days later, the S.& P. 500 peaked at 678.51, 7.6 percent above its current level.

But those declines pale next to the huge selloff in the Nasdaq stocks, which daily provide at least one utter slaughter. Yesterday's disaster was the Fritz Companies, a freight-forwarding and logistics outfit whose shares lost more than half their value after the company announced that a previous acquisition had cost more than it expected. Fritz shares fell $15.25, to $12.25.

That made a grab bag of transportation-related companies the worst performing among 70 industrial sectors tracked by Birinyi Associates, losing 43 percent of its value since June 5. The sectors tracked by the research firm included more than 500 Nasdaq companies whose market valuations totaled more than $300 million each and whose share prices exceeded $20.

Not all of the declines were as spectacular. Several other groups have lost more than a quarter of their value over the last seven weeks. A group of pharmaceutical companies, for example, dropped 28 percent of their value. Among the biggest decliners were Vertex Pharmaceuticals, PDT Inc., Dura Pharmaceuticals and Watson Pharmaceuticals.

Health maintenance organizations have also suffered badly, with the group falling 22 percent after some prominent companies reported disappointing earnings for the quarter ended June 30.

"A lot of sectors in health care used to be viewed as something of a safe haven," said Charles Scavone, who co-manages two mutual funds, AIM Aggressive Growth and AIM Constellation, that focus on smaller companies.

Also on the receiving end of some swift kicks from investors are a bevy of apparel and specialty retailers. Several companies in the industry reported disappointing June sales, which proved especially vexing to investors who bought the stocks in the first quarter, expecting that the sector's dismal 1995 sales marked the end of their slump.

Among the biggest decliners in retailing since early June are Nordstrom, a general retailer whose shares have fallen 21 percent; Gymboree, which sells children's apparel and whose shares have dropped 37 percent, and Bed Bath and Beyond, whose shares have fallen 22 percent.

Some of those declines are puzzling, Mr. Mullins said, because not all of the companies missed their earnings targets. "Bed Bath and Beyond hasn't missed a thing, and it still got hit," he said.

Some technology groups do show up among the list of industry groups that performed most poorly, of course. Nine of the top 10 Nasdaq companies in terms of market valuation -- including Microsoft, Intel, Cisco Systems and Oracle -- are technology concerns; only Amgen is not.

Among the biggest decliners were makers of electronic and telecommunications equipment. Leading that group are some of the biggest favorites of many mutual funds that specialize in small-company stocks, including Ascend Communications, down 33.4 percent since June 5, and U. S. Robotics, down 31 percent during the same period.

But not all technology companies have been beaten up in the last two months. Shares of software maker Oracle, for example, gained 7.3 percent during that time, after reporting better-than-expected earnings for the quarter ended May 31.

Most analysts call the current downturn in Nasdaq stocks "a classic correction," similar to declines in 1992 and 1994, when the Nasdaq index fell 10 percent to 20 percent.

"This one feels a little more severe because we have gone a while without having one," said Mary Lisanti, manager of Bankers Trust Investment Small Cap fund. "This may go on another couple of weeks to a month, unless we're entering a bear market. But we don't see that."

GRAPHIC: Graphs: "What's Hurting The Nasdaq Index" show the decline percentage of various sectors on the Nasdaq. (Source: Birinyi Associates) (pg. D1); "Defying the Market Trend" shows yesterday's close of the Nasdaq composite index and the rise of share prices in some industry groups. (Source: Birinyi Associates (sectors); Bloomberg Financial Markets (index)) (pg. D10)

LOAD-DATE: July 25, 1996

BUSINESS

Nasdaq drops despite boost from Compaq Dow ekes out gain in a volatile session

FROM OUR NEWS SERVICES

07/25/1996
Atlanta Journal and Constitution
B; 01

Compaq Computer Corp.'s second-quarter earnings and positive outlook for the rest of the year injected beleaguered technology investors with a rare commodity over the past few days a optimism.

But it wasn't enough to lift the technology-laden Nasdaq market into the plus column Wednesday. The Dow Jones industrial average, on the other hand, finished a fitful day with a small gain.

Traders said they expect stocks to remain volatile as the market works through its ongoing correction.

At the opening Wednesday, Compaq's earnings didn't seem to be able to lift technology stocks. The sector has been under increasing pressure in the past few days, and even failed to rally Tuesday after bellwether Microsoft Corp. reported better-than-expected earnings. Earlier Wednesday, the Nasdaq composite was down as much as 30.68.

But later the stocks started to climb, boosted by Compaq's strong earnings and bargain hunting.

Analysts said Wednesday's decline and bounce-back are part of the market's attempts to hammer out the bottom end of a trading range.

The stock market, stuck in the throes of the most severe correction in nearly two years, is expected to revisit, and probably sink beneath, the lows reached at the depths of last week's sell-off.

"I think we will eventually take out the lows of last week," said Edward Nicoski, market strategist at Piper Jaffray.

Nicoski said there was little follow-through buying during the rebound of late last week, and that the bounce-back "petered out very quickly." Attempts to push many individual stocks higher led to "failed rallies" that left the market with little support.

"This is kind of ugly," Nicoski added.

Analysts say investors are selling into the good news from any liquid instruments that have held their value relative to the market. As a result, any upside earnings surprises from the market's better performers are being met with a sell-off.

DOW Close: 5,354.69 Up 8.14 NASDAQ Close: 1,042.37 Down 6.70

Citation Search Result Rank 27 of 32 Database
7/25/96 ASSOCPR (No Page) ALLNEWS
7/25/96 Associated Press (Pg. Unavail. Online)
1996 WL 4433078
(Publication page references are not available for this document.)

The Associated Press

Thursday, July 25, 1996

Stock Market Rout, Federal Settlement, Has So Far Not Deterred Nasdaq
PATRICIA LAMIELL

NEW YORK (AP) - The stock market's turbulence could not come at a worse time for the electronic trading system known as Nasdaq.

Prices for many Nasdaq stocks have plummeted from record highs set last month. Nagging questions have been raised about whether Nasdaq adequately polices dealers and protects investors from cheating. The Nasdaq system has suffered some chronic technical glitches.

Nonetheless Nasdaq, the main marketplace for small and growing companies, is far from out.

Investors are unlikely to stop dealing on Nasdaq as long as Nasdaq lists the stocks they want to buy and sell, including such heavyweights as Netscape Communications, Microsoft Corp. and MCI Communications Corp.

And significant defections are not likely, analysts said, even among companies that meet the bigger capitalization requirements to trade on the New York Stock Exchange.

"I'm doubtful that the recent poor performance of the Nasdaq is going to have an impact on the number of companies that list on the Nasdaq," said Paul Greenwood, senior research analyst at Frank Russell Co. in Tacoma, Wash.

Greenwood and others say Nasdaq's retreat stems more from the volatility of technology stocks, its major constituents, rather than any hostility on the part of investors or companies that trade on the Nasdaq system, a far-flung network of dealers linked by phone and computer.

Still, Nasdaq has been hit with a one-two punch in the past week.

On July 17, two dozen Wall Street firms settled a nearly two-year federal investigation of Nasdaq price fixing and fee padding, by agreeing among other things to install expensive monitoring systems that federal regulators can demand to see unannounced.

The settlement was reached in the middle of a significant market retreat. From an all-time closing high of 1,249.15 on June 5, the Nasdaq composite is down 15 percent, closing Thursday at 1,062.39.

Blue chip stocks also have declined, but not nearly as much. From its all-time closing high of 5,778.00 on May 22, the Dow Jones industrial average is down 6 percent, closing Thursday at 5,422.01.

Analysts who believe the stock market is cyclical said the retreat makes sense. The Nasdaq outran the Dow Jones average significantly in 1995, rising 40 percent compared with 33 percent on the blue-chip average. Now, they said, it is payback time.

Last year, 58 companies left the Nasdaq system for the Big Board. Another 32 defected in the first half of this year.

But the number of overall Nasdaq listings also has grown, keeping defections at just 1 percent of the total, said Marc Beauchamp, a spokesman for the National Association of Securities Dealers.

The Washington-based group is the parent of Nasdaq, an acronym for National Association of Securities Dealers Automated Quotations.

Besides making a market in shares of smaller companies, Nasdaq prides itself as the place for fast-growing upstarts to list their stock. Out of the 5,365 companies listed in the Nasdaq system, 1,300 are big enough to list with the bigger New York Stock Exchange.

The companies do not move, Greenwood said, because they "prefer to be associated with that dynamic."

And new companies continue to list. Initial public offerings were a record 333 for the first half of this year, compared with 476 in all of 1995. Companies totaling $13.9 billion in capitalization did IPO's, compared with $16.7 billion for all of 1995.

Nasdaq has encountered problems keeping up with the growth in issuance and in trading, despite a $170 million improvement to its communications system completed at the end of last year that doubled its trading capacity to more than 1 billion shares a day.

Technical glitches are less frequent than previously. But just last week, Nasdaq had to retransmit a number of closing stock prices that had been sent inaccurately.

More disconcerting than technical inconveniences is the criticism that Nasdaq has been less than vigilant about checking out the companies that list with it.

Earlier this month, shareholders sued bankrupt Ernst Home Centers, charging the Seattle-based hardware chain misled buyers of an initial public offering on the Nasdaq two years ago.

In May, the Securities and Exchange Commission, the federal agency that polices the markets, sued Comparator Systems Inc. after its stock made stunning strides in Nasdaq trading.

The SEC accused the Newport Beach, Calif.-based company of duping investors, lying about its finances and stealing a fingerprint identification prototype from a Scottish professor.

If Justice Department officials were correct, investors often do not get a fair price on Nasdaq trades. "The supervision on Nasdaq is nowhere near what it is on the Big Board, and I don't think you're ever going to change it." said William LeFevre, senior market analyst at the firm of Ehrenkrantz King Nussbaum in New York.

Beauchamp reminds Nasdaq's critics that the system hit a record daily trading volume of 877 million shares on July 16.

"Investors and companies have voted with their dollars that they have confidence in the Nasdaq market, and they should have increased confidence after this period of intense review."

---- INDEX REFERENCES ----

STORY ORIGIN: NEW YORK

NEWS CATEGORY: BUSINESS

SIC: 6231

Word Count: 828
7/25/96 ASSOCPR (No Page)
END OF DOCUMENT