

MONEY & INVESTING

THE WALL STREET JOURNAL

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Ahead Of the Tape

—Today's Market Forecast—

By CRAIG KARMIN

South Korean Lessons

American consumers, despite some recent wobbles, haven't lost their urge to buy. But a look at what is going on in South Korea offers a cautionary tale for plastic-happy U.S. shoppers. And, perhaps, for future returns on U.S. stocks.

After the Asian financial crisis of 1997 and 1998, Seoul looked to boost local consumption and wean its economy from a dependence on export-led growth. The government viewed ramping up credit-card purchases as a quick fix and rushed through a number of laws to make the country more plastic-friendly. These ranged from requiring most retailers to honor cards to offering tax deductions for certain purchases made on credit.

Seoul Stumbles

Korea's Kospi, monthly, in U.S. dollar terms



Source: Thomson Datastream

This gentle nudge had the desired effect: By 2000, the number of credit cards circulating in South Korea had surged to 50 million. That was double the number in 1994, and more than the total number of South Koreans. Sure enough, the country borrowed and consumed and nursed its economy back to health.

Yet personal bankruptcies were rampant, and by 2002, total household debt, relative to South Korea's gross domestic product, had jumped to 64% (still less than the 83% for the U.S. today). So worried have Mr. and Mrs. Kim become over their growing liabilities that South Korean consumption is again declining. And even though the economy is expected to expand about 3% this year, the central bank surprised the market last week by cutting interest rates to a record low of 3.5% in an effort to stimulate consumer demand.

The lesson, says Hong Kong-based investor Marc Faber in his sobering newsletter—the Gloom, Boom & Doom Report—is that excessive consumer debt can cause consumption to decline in even a relatively healthy and dynamic economy. “The growing debt burden of U.S. consumers may begin to have a negative impact on their spending power,” he warns. “This is exactly what has happened in South Korea.”

South Korea's case study doesn't bode well for the U.S. stock market, either. Despite robust economic growth following the financial crisis, Seoul's Kospi stock index, which measures the performance of 674 South Korean companies, is about 19% lower in dollar terms since the trouble in Asia started in July 1997. Certainly, South Korea, which relies heavily on exports and stares daily into the eyes of a heavily armed antagonist to the north, doesn't offer a clean comparison with the U.S. Still, it does provide an uncomfortable reminder that economic and corporate profit growth, and stock-market performance, can diverge for long periods of time.

Send comments to craig.karmin@wsj.com

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Bids & Offers Column Today: On Scams and Swimmers

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STREET SLEUTH

The Family Way at Troy

The stock declines at Troy Group show the hazards of buying into family-controlled firms. Page C3

SHORT SELLING

NYSE Bears Raise Paws

Short-selling level rises 1.8% for latest month, as stock prices weaken. Articles and tables, Page B4

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Google Shares Prove Big Winners—for a Day

Despite Run-Up Confusion, Flubs, Investors Who Bought in Auction At \$85 IPO Price Had 18% Gain

By GREGORY ZUCKERMAN

INVESTORS WHO WENT through the cumbersome auction for Google Inc. shares were feeling particularly lucky yesterday.

The countdown to Google's initial public offering of stock was filled with confusion, frustration and miscues. The first day of trading was no different. But shares of the Internet search-engine company proved to be big winners, at least for a day.

HEARD ON THE STREET

The stock closed at \$100.34 on the Nasdaq Stock Market, up 18% from the reduced \$85-a-share IPO price in heavy trading—some 22 million shares traded, which was more than the 19.6 million shares sold. While some of the gain can be chalked up to the fact that the projected offering price had been reduced in the days leading up to the IPO, it still was an impressive price “pop,” especially in a dreary IPO market and in the midst of another down day for the technology-heavy Nasdaq Composite Index.

Any investor who paid \$17,000 for 200 shares of Google in the auction was sitting on more than \$3,000 in quick paper profits.

Google's two founders, Sergey Brin and Larry Page, did quite a bit better: The 38 million shares that each still holds after the IPO rose almost \$600 million in value, to about \$3.8 billion for each man. A Google spokeswoman declined to comment.

Yesterday's closing level remains below the \$108-to-\$135 range that Google originally estimated for

'We're Rich. Now What?'

The IPO has created a staff of millionaires at Google. Now the company must confront the many problems that typically accompany such newfound employee wealth. Article on page C3.



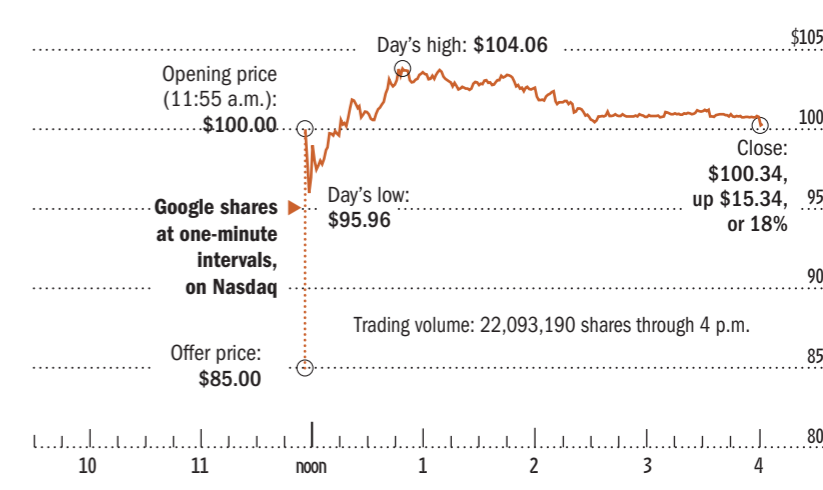
Froogle Priced

After offering shares at a sharply reduced rate, Google enjoyed a strong first day of trading. Its IPO, despite the lower price, was the second-highest priced ever in the U.S. stock market, and rose 18%. Above, Larry Page (center, red tie), Google's co-founder, at a first-day trading ceremony.

¹Original prices; Genentech has split 2-for-1 three times and Kinder Morgan once. ²Acquired July 1 of this year by Aniba

Sources: WSJ Market Data Group; Dealogic

| ISSUER/PRICING DATE | OFFER PRICE | DEAL VALUE (in billions) | FIRST DAY CLOSE | FIRST DAY CHANGE FROM OFFER PRICE | CHANGE THROUGH YESTERDAY |
|--|-------------|--------------------------|-----------------|-----------------------------------|--------------------------|
| Genentech July 19, 1999 | \$97.00* | \$2.13 | \$127.00 | 30.9% | 287.71% |
| Google Aug. 18, 2004 | \$85.00 | 1.67 | 100.34 | 18.0 | 18.04 |
| Kinder Morgan Mgmt. May 14, 2001 | 70.41 | 1.05 | 70.50 | 0.1 | 5.5 |
| Goldman Sachs Group May 3, 1999 | 53.00 | 3.66 | 70.40 | 32.8 | 63.4 |
| United Parcel Service Nov. 9, 1999 | 50.00 | 5.47 | 68.00 | 36.0 | 41.5 |
| FreeMarkets ² Dec. 9, 1999 | 48.00 | 0.20 | 280.00 | 483.3 | -86.4 |



its shares, but investors still called the debut a success. “It's a pleasant surprise,” said Dan Chung, president of fund manager Fred Alger Management in New York, which bought shares in the auction. “I thought it would open up modestly higher and then meander.”

The climb in price seemed to justify the move by Google's founders to cut back the number of shares they sold at the \$85 debut, as well as the decision by Google's venture-capital investors against selling any shares in the IPO, betting on a

higher price down the road. Late Wednesday, Google sold 19.6 million shares at \$85 each, netting \$1.67 billion in the biggest “auction-style” IPO.

IPOs often begin trading with a measure of disorder, as investors gear up to trade and market makers try to figure out where a stock should open, and Google's had its share of problems. Like a runner jumping out of the blocks a bit too early, one unidentified brokerage firm making a market in Google's shares prematurely posted several trades of a few hundred shares at prices as high as \$140.92,

setting traders abuzz. But the stock was still in what traders refer to as the “quote-only period,” when firms post quotes, rather than trades. The Nasdaq was awaiting word from the lead underwriters of the deal—Morgan Stanley and Credit Suisse Group's Credit Suisse First Boston—that trading could begin, says a spokeswoman for Nasdaq. Nasdaq officials notified the brokerage firm of the flub, and it removed the trades from its order book. Once the shares began trading, at 11:55 a.m. Please Turn to Page C3, Column 3

New Mutual-Fund Cops Will Come at a Cost

By KIMBERLY PALMER

WHEN THE Securities and Exchange Commission mandated that mutual funds have “compliance” chiefs, it was trying to protect shareholders from improper behavior taking a bite out of their returns. But at some funds, compliance officers themselves will soon be nibbling away at investors' nest eggs.

The \$130 million Hensler Equity Fund, for instance, is raising fees this year by \$78,000—or 0.06% of assets—to cover 60% of the cost of adding a compliance chief, says William Lako, managing director of the fund's adviser.

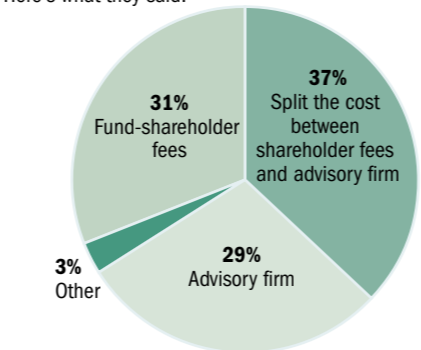
FUND TRACK

Last year, fees totaled 1.27% of assets. The compliance officers are in charge of making sure that the fund follows, or complies, with all regulations. The Hensler fund's board discussed having the adviser absorb the entire cost of the compliance position, but quickly dismissed that option because the rule applies directly to the fund. Making the adviser pick up the tab also “would have cut into profits too much,” says independent director Robert Nickels.

Flaherty & Crumrine Preferred Income Opportunity Fund, a \$210 million closed-end fund,

Who Will Pay?

In June, 200 mutual-fund company executives were asked how their funds will pay for chief compliance officers. Here's what they said:



Source: PricewaterhouseCoopers

will likely raise fees too. The fiscal 2003 fee of 1.54% of net assets is “going to have to go up,” says Donald Crumrine, chairman of the fund's board and its advisory firm. He adds that the increase will be “minor,” though he doesn't yet know the amount.

With the Oct. 5 deadline for installing a compli-

ance chief looming, mutual-fund boards are wrestling with how to pay for an officer who will report directly to the fund board. The rule was adopted late last year, amid allegations that several well-known fund companies allowed favored investors to trade rapidly in their shares—and to make after-hours trades—at the expense of long-term investors. So far, firms implicated in the scandal have agreed to settlements with regulators totaling \$2.5 billion, including fee cuts that New York Attorney General Eliot Spitzer insisted on as part of his deals. The SEC didn't specify how funds should pay for the new officers.

The question of how to foot the bill is difficult for mutual funds because of their unusual structure. Funds are owned by shareholders and overseen by boards of directors, which hire advisory firms to manage the money. Funds typically don't have employees of their own or budgets to pay salaries. Compliance officers will earn between \$200,000 and \$400,000, estimates Neil Bathon, president of Financial Research Corp. in Boston.

Managers of smaller funds, who collect less in fees than large fund managers, appear more likely to recommend that at least part of the extra cost be passed on to shareholders. But some observers also question whether compliance chiefs

Please Turn to Page C13, Column 2

Stocks Slip, as Rising Crude-Oil Prices Weigh on Market

By KIMBERLY PALMER

FIGHTING AGAINST the specter of ever-rising oil prices and ignoring the strong first day of trading for the highly anticipated Google share offering, stocks declined, though late buying kept the Dow Jones Industrial Average above 10,000.

The blue-chip measure slipped 42.33 points, or 0.4%, to 10,040.82 and is down 4% for the year.

Surging oil prices continued to weigh on stocks. Oil futures jumped \$1.43 a barrel, or 3%, to \$48.70, setting another price record on the New York Mercantile Exchange. Adjusted for inflation, oil prices remain well below highs reached in the early 1980s, but the inexorable rise in prices is creating a headwind for stocks.

“If you look at the last three or four recessions, each one is preceded by a rise in energy prices,” said Joseph Keating, chief investment

officer with AmSouth Asset Management, Birmingham, Ala. Investors fear rising oil prices could cap economic growth, and thereby curtail corporate profits.

The Google initial public offering of stock, after stumbling to the starting gate, showed strength in the first day of trading. Shares of the Mountain View, Calif., Internet search-engine soared 18% to \$100.34 a share after being priced at \$85, the low end of a sharply reduced offering range.

Google's surge didn't make other technology stocks feel lucky. The tech-rich Nasdaq Composite Index fell 0.6%, or 11.48 points, to 1819.89. Instead of focusing on Google, Chris Wolfe, global head of equities with J.P. Morgan Private Bank, said investors are more concerned about a rough third-quarter earnings season for the technology sector.

The Standard & Poor's 500-stock index also fell, to 1091.23, down 3.94 points, or 0.36%.

With stocks struggling, memories of the hor-

rible post-bubble period have started to surface. “The brutality of what happened in '00, '01, and '02 has left a semipermanent, pathological bunch of doubting Thomases,” said Sandy Lincoln, president of Wayne Hummer Asset Management, Chicago. While growth in gross domestic product seems solid and inflation under control, geopolitical factors, including terrorism fears, Iraq and the impending election, have left investors worried about issues beyond their control.

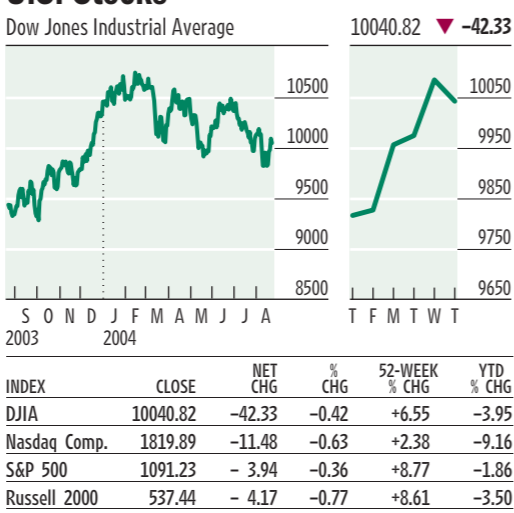
In major U.S. market action: Stocks fell. There were 1,777 issues declining and 1,435 advancing on the Big Board, where 1.25 billion shares traded.

Bonds rose. The 10-year Treasury note rose 7/32, or \$2.19 for every \$1,000 invested. The yield, which moves inversely to price, fell to 4.214%. The 30-year bond rose 9/32 to yield 5.024%.

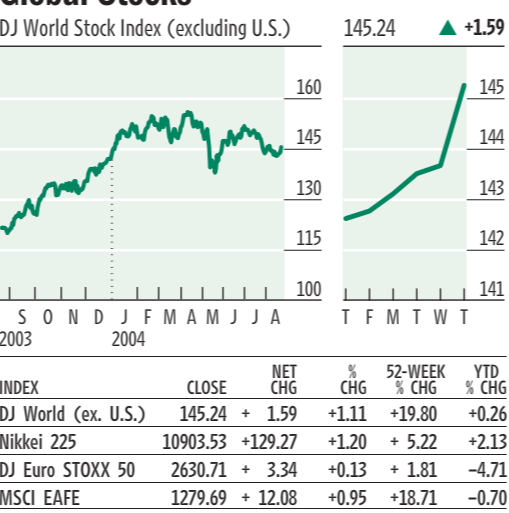
The dollar was mixed. Late in New York, the currency traded at 109.37 yen, unchanged from Wednesday. The euro gained to \$1.2370 from \$1.2338.

Markets Diary/Trading for Thursday, August 19, 2004

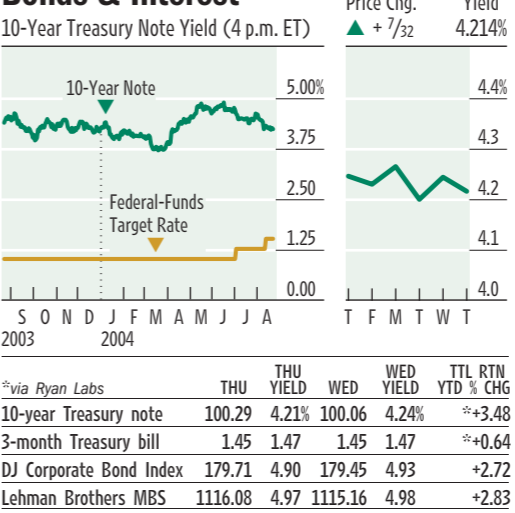
U.S. Stocks



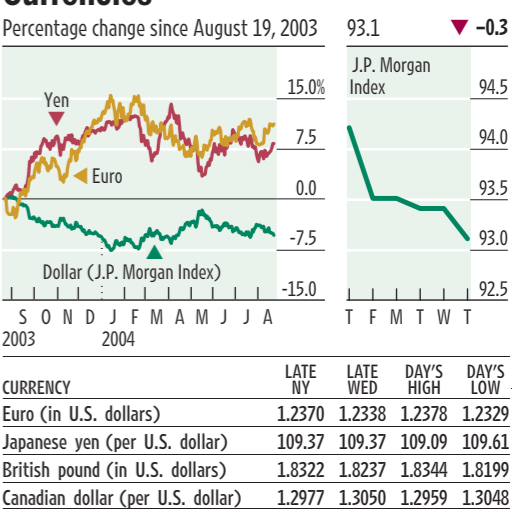
Global Stocks



Bonds & Interest



Currencies



| INDEX | CLOSE | NET CHG | % CHG | 52-WEEK % CHG | YTD % CHG |
|--------------|----------|---------|-------|---------------|-----------|
| DJIA | 10040.82 | -42.33 | -0.42 | +6.55 | -3.95 |
| Nasdaq Comp. | 1819.89 | -11.48 | -0.63 | +2.38 | -9.16 |
| S&P 500 | 1091.23 | -3.94 | -0.36 | +8.77 | -1.86 |
| Russell 2000 | 537.44 | -4.17 | -0.77 | +8.61 | -3.50 |