

Nasdaq Pumps Up to 5000

Tech-Stock Rally Spurs Milestone In Hyper Time

By GREG IP
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KNOCKING ASIDE valuation, interest-rate and psychological barriers like tenpins, the Nasdaq Composite Index rolled through the 5000 mark.

It is a crowning milestone in investors' unprecedented love affair with technology stocks.

The Nasdaq first tested the 5000 mark two days ago, but failed to close above it. Yesterday, the Nasdaq used a late-day burst to finish up 149.60 points, or 3.05%, to 5046.86, a little more than two months after first crossing 4000. The index reached the achievement on the strength of Nasdaq stalwarts such as Microsoft, which rose \$4.4375 to an even \$100, returning its market value above the \$500 billion mark, and market newcomers like VeriSign which climbed \$37.75 to \$240.75. Volume on the Nasdaq reached 1.9 billion shares, a typi-

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THURSDAY'S MARKETS

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"It's out of control," said Patrick Davis, head of Nasdaq trading at PaineWebber. "The tape tells the story: Obvious leadership from all the big stocks, even more so than the Internet and the biotechs. Five thousand was a big number, everyone was shooting for it. Once we broke through that, it gathered momentum."

In contrast to many previous sessions, the gains by Nasdaq's technology stocks didn't come at the expense of everything else. On a big day for round numbers, the Dow Jones Industrial Average regained the 10000 level—climbing 154.20, or 1.6%, to 10010.73—but there was little attention paid to that achievement, since the Dow had first closed above the 10K mark nearly a year ago, and has struggled mightily compared with Nasdaq since.

The Standard & Poor's 500-stock index, meanwhile, recaptured the 1400 level, adding 34.99, or 2.56%, to 1401.69. The Russell 2000 index of small-capitalization companies, many of which are traded on Nasdaq, rose 11.39, or 1.9%, to a record 606.12.

"Not only is it a very powerful close, but it is very broad," Jon Olesky, head of

listed stock trading at Morgan Stanley Dean Witter & Co. said above the trading desk's din at the closing bell. "For the last half hour I've been tapping my quote monitor to make sure it's working. We have not had many afternoons where the Dow and the Nasdaq composite have been in a foot race into the bell."

The Nasdaq composite has defied almost all expectations by coming off last year's historic 86% gain with an even stronger start this year. It is up 24% so far this year—that is already just under the full-year gain in 1999 for the Dow, of 25%. By contrast, the Dow is down 12.9% so far this year and the S&P 500 is down 4.6%.

The Nasdaq has accomplished all this without depending on a handful of stalwarts. At a time when most other stocks, including most of the blue chips, are down sharply from their highs, 61% of Nasdaq's stocks are up so far this year and 39% down, according to Ned Davis Research.

A glance at Nasdaq's biggest market-value gainers from 4000 to 5000 (which are therefore the biggest contributors to the composite, which is market-value weighted) shows the rotation in the ranks. They include Intel, up 41% to \$395 billion; Juniper Networks, up 150% to \$42 billion; and PMC-Sierra Inc., up 230% to \$33 billion. None were among the top 10 contributors to the Nasdaq's move from 3000 to 4000.

What could stop the Nasdaq's climb from here is anybody's guess. It has forged ahead as worries about Federal Reserve interest-rate increases have knocked down the so-called Old Economy

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Lou Beach

March 9, 2000 •

Nasdaq hits 5000, two months or so after 4000, which was two months after 3000

Dec. 31, 1999 •

Nasdaq Composite Index finishes year with 86% gain, a record for any major U.S. market index

Nov. 1, 1999 •

Dow Jones Industrial Average adds first Nasdaq-listed stocks, Microsoft and Intel

July 17, 1995 •

First close over 1000

May 1994 •

Price-fixing allegations against Nasdaq dealers surface, triggering Nasdaq restructuring

Oct 13, 1971 •

Intel IPO begins trading

March 13, 1986 •

Microsoft IPO begins trading

Feb. 8, 1971 •

Birth of Nasdaq

Market Drivers

Nasdaq is market-cap-weighted, so the biggest changes in market values drive it. Here are the leaders of each big move; market cap and gains in billions of dollars.

500-1000

COMPANY	MARKET CAP AT MILESTONE	NET CHG.	% CHG.
Intel	\$63	\$52	485%
Microsoft	64	51	415
Oracle	18	17	1,139
Cisco Systems	16	15	1,889
Applied Materials	9	8	1,474
Amgen	11	5	99
MCI WorldCom	5	5	1,915
3Com	5	5	1,800
Tellabs	4	4	2,180
Informix	4	4	4,205

1000-2000

Microsoft	\$289	\$225	353%
Cisco Systems	99	84	535
Intel	143	80	126
Dell Computer	72	69	2,208
MCI WorldCom	57	52	1,021
Sun Microsystems	19	14	301
Fifth Third Bancorp	16	12	334
Tellabs	15	11	256
Costco Wholesale	14	10	298
BMC Software	12	10	528

2000-3000

Microsoft	\$464	\$175	61%
Cisco Systems	230	131	132
Intel	265	122	85
MCI WorldCom	158	101	178
Sun Microsystems	83	64	339
Oracle	82	55	203
Yahoo!	47	38	441
Qualcomm	42	38	969
Dell	107	35	48
Applied Materials	35	24	208

3000-4000

Microsoft	\$595	\$131	28%
Cisco Systems	342	111	48
Oracle	156	75	92
Qualcomm	109	67	160
Yahoo!	106	59	127
Ericsson	117	43	59
Sun Microsystems	122	39	47
JDS Uniphase	54	38	248
Veritas	54	26	96
Dell	106	26	25

4000-5000

Intel	\$395	\$115	41%
Cisco Systems	478	114	32
Oracle	237	82	53
Ericsson	180	63	54
Sun Microsystems	154	30	24
JDS Uniphase	68	26	63
Juniper Networks	42	26	150
Applied Materials	73	25	51
Network Appliance	36	24	192
PMC-Sierra	33	23	230

Sources: Ned Davis Research, Binyi Associates

The Rocket to N5K

It's hard to believe, but the Nasdaq Stock Market is still a 20-something. The market was formed in 1971, when some of its largest stocks included American Express and Anheuser-Busch (both of which are now on the NYSE) and Roadway Express, still a Nasdaq mainstay. But the market has grown up fast lately, capped by yesterday's milestone.



— INSIDE —

- **Picture Nasdaq 10000?** What the round-number milestones mean, why they come so fast. Page C12.
- **Measure by Measure:** Nasdaq composite against its rivals, and the trading volume burst. C12.
- **Mutual-Fund Dilemma:** It's hard to play the overall Nasdaq. C23.

Nasdaq Rushes to New Milestone Amid Investors' Passion for Techs

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stocks in other market indexes, and as valuations became more and more otherworldly. Indeed, now that investors have concluded that the Fed and valuations don't matter to stocks of companies at the forefront of the information revolution, the sky seems to be the limit.

Today, four of the six largest stocks in the country in terms of market capitalization are now traded on Nasdaq, and their average price-to-earnings ratio is 120. Never before have so many of the stock market's largest companies traded with triple-digit ratios. More remarkable, fully 20% of the Nasdaq's value is made up of companies that have gone public only since the beginning of 1999, and three-quarters of them have no earnings and thus no P/E ratio.

Philip Dow, director of equity strategy at Dain Rauscher Wessels in Minneapolis, relates how at a recent internal conference, the firm's technology analysts told their sales force, "We can't justify the valuations," but if you want performance, "This is the place to be."

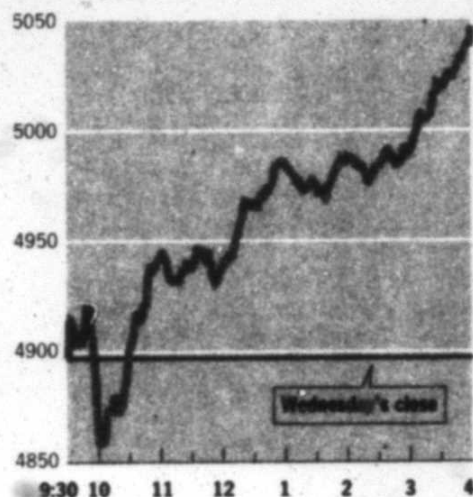
Fritz Meyer, manager of Invesco Growth & Income Fund, says the wireless revolution will continue powering stocks for some time. "I can hardly identify a stock in my tech holdings that's not in some way connected to the progress toward that kind of Holy Grail scenario," he said.

Still, some investors are wondering if it has all gone too far. Michael Weiner, head of the balanced-fund team at Banc One Investment Advisors, says the half-dozen companies specializing in optical networking boast a combined market value of about \$200 billion, when the most optimistic forecast of the market for their products five years from now is \$20 billion.

The strong performance of tech stocks has produced a self-reinforcing spiral in recent months. "Aggressive growth" mutual funds that specialize in technology have been taking in enormous flows of investor cash, and the managers have to rush out and buy more of the same stocks to avoid having the cash drag down their per-

Final Steps in the 5K Run

The Nasdaq Composite Index, at one-minute intervals yesterday



Source: Reuters

formance. They commonly put the money to work by purchasing a basket of stocks through a "program trade" late in the day, which feeds the buying frenzies in the last half hour of the session.

Mutual-fund managers who pride themselves on a disciplined approach to stock picking have long since seen technology stocks soar past any reasonable valuation ceiling; but they struggle to sell what's working.

"These stocks are trading at such enormous valuations relative to the Old Economy manufacturing companies, that ultimately when the Fed decides to slow down its interest-rate hikes, these stocks on the manufacturing side begin to look appealing," said Gary Campbell, chief investment officer at Commerce Funds.

"In my view that would come at the expense of the technology names." But he admitted it is hard to pull the trigger when technology stocks have so much upward momentum. "I'm not going to fight the tape over the short run, but in the back of my mind, the longer it moves forward, the more appealing it gets."

Indeed, Mr. Campbell is contemplating purchasing a unit trust made up of 19 In-

ternet-company stocks that trades on the American Stock Exchange.

"Certainly it does take you a bit out on the risk curve, but . . . that sector represents at last count 3.5% to 4% of the S&P 500 anyway," he said. The 40-stock Dow Jones Internet Index shot up 4.2% yesterday, and is up 26.9% for the year.

The biggest threat for the rampaging technology market—despite investor sentiment to the contrary—is the continued threat that the Federal Reserve will raise interest rates. Historically, tech stocks have fallen harder than the overall market at times of rising interest rates because of the discounting impact on the present value of their future profits. But that historic rule has been turned on its head this year as almost every other sector went down as scripted as the Fed raised rates but technology climbed to new highs.

The new logic is that rising rates don't affect technology companies because they don't borrow and because their sales growth is enough to overcome any interest-rate impact. Indeed, Mr. Olesky said that as the end of the first quarter approaches, Nasdaq could coast to more highs as money managers rotate further into the best-performing stocks. "You're a week to a week and a half before some end-of-quarter dynamics," he said.

PaineWebber's Mr. Davis said a pull-back—or "correction" in Wall Street's lingo—in the Nasdaq composite is bound to come "when you least expect it. It's human nature. But every time you say that, it keeps going up."

Outside the U.S., stocks rose in dollar terms. The Dow Jones World Stock Index, excluding U.S. stocks, rose 1.44, or 0.77%, to 189.50.

In major market action:

Stocks rose. On the Big Board, where 1.12 billion shares traded, 1,635 stocks advanced and 1,309 fell.

Bonds rose. The 30-year Treasury bond rose 4/32, or \$1.25 per \$1,000 bond, to push down the yield to 6.15%.

The dollar fell. Late in New York, it traded at 96.63 cents to the euro compared with 96.08 cents Wednesday, and 106.65 yen compared with 107.20 Wednesday.

—E.S. Browning and Kara Scannell
contributed to this article.