MONEY & INVESTING
THE WALL STREET JOURNAL.

Ahead Of the Tape

—Today's Market Forecast—

By Jesse Eisinger

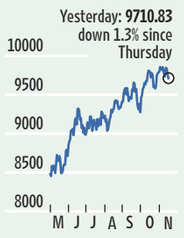
Danger Signs

■ **All of a sudden, the stock markets look shaky.**

As usual, people are at a loss to explain why. And so commentators pointed to the bombings in Turkey and the crash of two Black Hawk helicopters in Iraq. Japan's stock market fell because of worries about terrorism; at least that was the explanation given. But is it true investors have finally started to worry about the Middle East?

As Goes War...

The Dow Jones Industrial Average



Source: WSJ Market Data Group

The Dow finished down 57.85 points, after a weak performance Friday. Two so-so trading days don't make a trend, nor would two weeks. One factor in the stallout is that the markets have anticipated an economic and profits recovery since earlier this year. Now that it's here, investors sell.

Nevertheless, there is an almost palpable air of worry and skepticism, despite the bullying insistence of the permapositivists that things are truly good. That anxiety seems to be overcoming steadily strong economic data. Yesterday, the government put out figures on business inventories that suggest that the initial estimate for third-quarter economic growth will be revised up from the already whopping 7.2%. It could go as high as 8%, according to Morgan Stanley estimates. And the New York Empire survey of manufacturing activity was buoyant.

Yet the markets feel jittery. Some Iraq concern makes sense. A soaring price of oil squeezes company profits. If the world is less safe, companies will invest less abroad and investors will likely keep their money closer to home.

But that isn't enough to explain why the markets are reacting now. The bombings in Turkey, for instance, are ominous, but there have been other bombings in Saudi Arabia that didn't push stocks down. A destabilized Saudi Arabia is arguably more dangerous, especially for the oil supply, than an unstable Turkey.

So, what's the underlying anxiety? Well, the economy is going to slow in the fourth quarter from its rabid pace. The consumer never de-levered during the slowdown and is sitting on an expensive new car and home.

Businesses are investing and even hiring modestly. But how long will they do so if consumer demand doesn't accelerate? Not long, no matter what happens in Iraq.

Send comments to tape@wsj.com and check Mondays for some letters at WSJ.com/Tape

—Inside—

■ **Heard on the Street:** How investment firm Tweedy Browne's protests helped to force Conrad Black's hand at Hollinger.

(Article on page C3.)

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■ **Executives on Trial:** The Tyco judge rules that he will allow prosecutors to question the firm's outside lawyer.

(Article on page C3.)

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■ **World Stock Markets:** Tokyo shares take a tumble, partly on terror fears.

(Article on page C14.)

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Is Pension Crisis a Scapegoat?

By Theo Francis
And Ellen E. Schultz

COMPANIES ACROSS the country have been taking an ax to their pensions, citing rising costs and the declining health of their pension plans. This year, some, like investment bank **Morgan Stanley** and benefits-consulting firm **Watson Wyatt** & Co., have cut pension benefits, while a few, including **US Airways Group** Inc., have killed pension plans altogether.

Employers eager to cut pensions blame the "perfect storm" of falling stock prices and low interest rates. That confluence caused corporate pension plans to go from being 23% overfunded at the end of 2000 to 19% underfunded at the end of last year, according to Bear Stearns & Co.

But some employees say their pension plans aren't as sick or costly as their employers claim, and argue that the companies are just using temporary market conditions as a pretext to cut benefits.

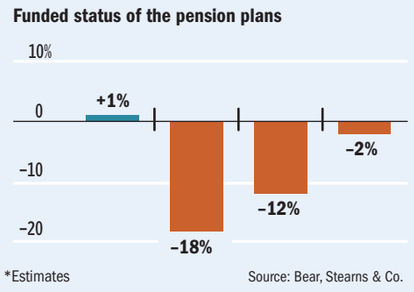
Indeed, the storm may be passing more quickly than realized. This year, billions of dollars in investment losses have vanished, thanks to a recovering stock market. And interest rates have moved higher, diminishing the pension obligations companies must record. The Dow Jones Industrial Average is up 16% year to date and the yield on the 30-year Treasury bond, a key pension benchmark, is 5.05%, up from 4.78% on Dec. 31.

On a Road to Recovery

The 100 pension plans with the largest liabilities are poised for a turnaround.

	2001	2002	2003*	2004*
Assets in billions	$865	$772	$849	$867
Liabilities in billions	$856	$945	$966	$886

Funded status of the pension plans



*Estimates Source: Bear, Stearns & Co.

"The two biggest tides have risen and should be lifting the boats," says Jack Ciesielski, a pension-accounting expert who writes the Analyst's Accounting Observer newsletter for investors. Moreover, a repeat of the "perfect storm" is unlikely—interest rates and the stock market have fallen in tandem only twice in the past 20 years, during 2001 and 2002.

Bear Stearns, in a report released last week, said pension plans are now on a "path to recovery." The report predicts that by the end of 2004, pension underfunding for the 100 companies with the biggest benefit obligations in the Standard & Poor's 500-stock index will drop to 2%, from 12% at the end of this year.

Even though pension problems appear to be ebbing, companies continue efforts to reduce or kill pension programs.

This summer, Morgan Stanley changed to a less-generous way of calculating pension benefits. Instead of a formula that is based on an employee's highest pay, it will instead use a "career average" formula based on a staffer's average pay over all years on the job. Morgan Stanley handouts made it clear that "most will accrue less in future pension benefits as a result."

Securities filings show that Morgan Stanley's pension accounting expense—which represents the pension plan's impact on corporate income—rose to $121 million in fiscal 2002 from $68 million the year before.

However, the filings also show that much of that increase was a one-time cost related to terminating a pension plan, and most of the remaining

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St. Paul Agrees To Stock Deal With Travelers

Merger Valued at $16.4 Billion May Portend More Consolidation For Property-Casualty Insurers

By Theo Francis
And Robin Sidel

CREATING ONE OF the largest property-casualty insurers in the country and potentially presaging more consolidation in the industry, **Travelers Property Casualty** Corp. and **St. Paul** Cos. agreed to merge as expected in an all-stock deal valued at $16.4 billion, the companies said.

Although the companies described the deal as a "merger of equals"—to create St. Paul Travelers Cos.—financial terms call for the smaller St. Paul to acquire the larger Travelers in an all-stock transaction that offers essentially no price premium to Travelers' shareholders.

No-premium deals often trigger speculation of potential rival bidders, but few deal makers expect another suitor to swoop in for either Travelers or St. Paul. There is a $300 million breakup fee if either company walks away from the deal. The talks were reported in yesterday's Wall Street Journal.

Jay S. Fishman

The pact will leave St. Paul Chief Executive Jay S. Fishman at the helm of the combined company, to be based in St. Paul, Minn., but with much of its operations still in Travelers' home of Hartford, Conn. The companies said they expect a $350 million restructuring charge once the merger is complete, probably in next year's second quarter.

Analysts and investors sifted the announcement for clues as to its larger meaning for the industry. Numerous Wall Street analysts interpreted the deal as a signal that the "hard" market of rising premium rates, which property-casualty insurers have enjoyed over the past two years, may be waning, a development that would increase the likelihood that a wave of industry consolidation is ahead.

Recently, insurance executives have warned

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Morgan Stanley Settles, but Woes Linger

Deal to Set Aside $50 Million For Clients Resolves SEC Charges, But Mutual-Fund Probes Continue

By Tom Lauricella

ALLEGING SIGNIFICANT wrongdoing in how a major Wall Street firm has sold mutual funds to investors, the Securities and Exchange Commission charged **Morgan Stanley** with a companywide failure to tell clients that it paid its brokers more to sell certain mutual funds that were more profitable to the firm.

In addition, in a case that was expected, the SEC said Morgan Stanley often failed to tell clients important information about the purchase of certain types of mutual-fund shares that would, in some circumstances, end up costing the investors more in fees while giving Morgan Stanley brokers a bigger commission payment.

Morgan Stanley settled the civil charges without admitting or denying wrongdoing. It will pay $50 million, which will be put aside to reimburse Morgan Stanley clients affected by the sales practices. Morgan Stanley will also have to take steps to accommodate clients who were put into inappropriate fund-share classes.

Inside

A former Morgan Stanley broker describes the selling pressure.

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"Few things are more important to investors than receiving unbiased advice from their investment professionals—or knowing that what they're getting may not be unbiased," Stephen Cutler, director of the SEC's enforcement division said at a news conference announcing the charges. "In plain and simple terms, Morgan Stanley's customers were not informed of the extent to which Morgan Stanley was motivated to sell them a particular fund."

In a statement, Morgan Stanley Chief Executive Philip Purcell said, "I regret that some of our sales and disclosure practices have been found inadequate." As a result, he said the firm will change some business practices, including the development of a new compensation formula covering fund sales for brokers and branch managers.

Morgan Stanley's legal woes connected with its mutual-fund sales practices aren't necessarily over. The New York firm is still facing civil charges by the state of Massachusetts alleging that the firm should have told investors of incentive programs to boost sales of Morgan-run funds. Massachusetts officials say they are pressing ahead with their case. Morgan Stanley has said Massachusetts state law didn't require such disclosure.

In addition, Morgan Stanley is facing shareholder lawsuits over fund-sales practices similar to those addressed by the SEC charges. Morgan Stanley has said the lawsuits are without merit.

Yesterday's charges are the latest sign of a testy relationship between Morgan Stanley and securities regulators. Less than two weeks ago, regulators forced the ouster of a consultant assigned to choose independent stock-research providers under terms of a global settlement of charges that 10 Wall Street firms issued overly rosy research to individual investors. The regulators took the action because they believed Morgan

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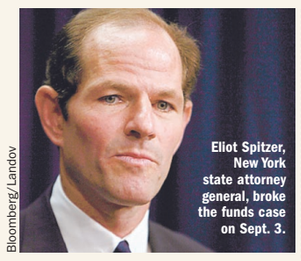
Scandal Scorecard

Here is the status of some of the companies in the mutual-fund investigations. Most firms say they are cooperating and will make restitution to investors. Wall Street firms including Citigroup, Bear Stearns, Merrill Lynch and Prudential (more details below) have also taken action against brokers. And a trade-processing company, Security Trust Co., could face charges in coming days from the New York attorney general.



Bloomberg/Landov

Eliot Spitzer, New York state attorney general, broke the funds case on Sept. 3.

ALLIANCE CAPITAL MGMT. (Stock symbol: AC; French insurer **AXA SA** is majority owner.) Tied to scandal when it suspended fund manager Gerald Malone and a sales executive for allegedly helping rapid trading. **Current situation:** Posted a $190 million charge related to funds probe. Malone and sales executive resigned; others have, or have been asked to.

AMERICAN EXPRESS (AXP) Its American Express Financial Advisors allegedly failed to deliver "breakpoint" discounts on mutual fund purchases. **Current situation:** It says it could face sanctions from regulators.

BANK OF AMERICA (BAC) Employees allegedly help Canary Capital "market time" the firm's Nations Funds. Several staffers fired. **Current situation:** Conducting an independent review of fund policies. Posted a $100 million charge.

BANK ONE (ONE) Allegedly allowed Canary Capital to "market time" its One Group funds. **Current situation:** Internal probe.

CHARLES SCHWAB (SCH) Says it found instances of market timing and possibly late trading in its U.S. Trust unit. **Current situation:** Says it has provided the information to the SEC and is still investigating.

FEDERATED INVESTORS (FII) Internal probe uncovers rapid trading and late trading. **Current situation:** Independent reviews of sales practices.

FRED ALGER MGMT. (Private) One of three suspended employees, James Connelly Jr., pleaded guilty to obstructing the fund-trading probe. **Current situation:** Continuing its internal review of fund-sales practices.

JANUS CAPITAL (JNS) Allegedly allowed Canary Capital to "market time" its funds. **Current situation:** Completing an internal review of its fund-trading practices and policies.

LOOMIS SAYLES & CO. (Owned by **CDC Ixis**.) Says it had accepted investments from frequent traders. **Current situation:** Said it stopped dealing with the traders.

MORGAN STANLEY (MWD) Regulators look at whether brokers recommend inappropriate share classes, such as B-fund shares, to clients. **Current situation:** Yesterday, Morgan Stanley announced a settlement with the SEC and NASD on sales and disclosure practices; will pay $50 million.

PILGRIM, BAXTER & ASSOC. (Owned by South African-based firm **Old Mutual PLC**, whose stock trades in London.) Firm's founders connected to timing trades in Pilgrim Baxter's PBHG funds. **Current situation:** The founders, Gary Pilgrim and Harold Baxter, retired.

PRUDENTIAL/WACHOVIA (WB; Wachovia Corp. controls unit that includes the former Pru brokerage.) A dozen stockbrokers and managers resign over suspicions of market timing. Massachusetts regulators and SEC this month filed civil charges against individuals. **Current situation:** The NASD is also investigating for possible late trading of funds and improper oversight of orders. Liability still rests with Prudential Financial Inc., which has a minority stake.

PUTNAM INVESTMENTS (MMC; owned by **Marsh & McLennan**.) Investigators probe short-term trading in Putnam international-stock funds. **Current situation:** The first mutual-fund firm charged in the scandal, Putnam settled with SEC regulators last week over rapid trading. It pledged "groundbreaking" reforms. CEO Lawrence Lasser resigned. Two managers charged with civil fraud.

STRONG CAPITAL (Private) Allegedly allowed Canary Capital to "market time" its funds **Current situation:** Doing an internal review; will increase independent directors

Milwaukee Journal Sentinel

overseeing funds. Richard Strong, ▲ whom New York state investigators allege profited from timing trades in funds overseen by Strong Capital, resigned as chairman of the Strong Funds board.

Sources: The Wall Street Journal Online; WSJ reporting

Pace of Putnam Redemptions Slows a Bit

By John Hechinger

Boston

INVESTORS CONTINUED to flee Putnam Investments, as assets under management tumbled $7 billion, or 3%, last week at the first mutual-fund firm charged in the widening trading scandal.

Last week's redemptions brought Putnam's drop in assets over the past two weeks to $21 billion, the size of a midtier mutual-fund firm.

"This is unprecedented," says Russel Kinnel, director of fund analysis at Morningstar Inc., a Chicago fund tracker. (In a separate development, the SEC's Donaldson defended the quick Putnam settlement. See article on page D9.)

And the defections are continuing this week. The board of the **California Public Employees' Retirement System** voted late yesterday to fire Putnam as one of its managers. Putnam manages $1.2 billion in U.S. and international stock portfolios for Calpers.

Calpers spokesman Brad Pacheco said the board made its decision because of a "severe lack of ethical standards within the firm."

"We hope this will send a strong message to the industry that corporate governance, ethical standards and compliance have to be im-

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Blue Chips Decline After Slide in Tokyo, But Pare Early Loss

By E.S. Browning

AFTER SWOONING in the morning following Tokyo's market slide, U.S. stocks rebounded in the afternoon as investors showed confidence in the longer-term outlook for stocks.

MONDAY'S MARKETS

Down as much as 138.81 points during the day, the Dow Jones Industrial Average finished with a decline of 57.85 points, or 0.59%, at 9710.83. Under pressure for most of this month, the index has been down in six of the past seven sessions, but it still is up 16% on the year.

Even with the late rebound, however, almost all stock groups finished the day with losses, following the decline of 3.7% in Tokyo's Nikkei index. The Tokyo index shocked investors by dropping below 10000 for the first time since Aug. 15.

"If they overshot too far they bounce back very quickly," said John O'Donoghue, senior stock trader at New York brokerage firm Credit Suisse First Boston. He noted that technology stocks recovered sharply from their lows as investors concluded that they had become inexpensive. "And we continue to see demand in the more consumer-oriented defensive stocks" such as **Altria Group** (the former Philip Morris Cos.), **Coca-Cola** and **Anheuser-Busch**. Some investors have been selling big winners and rotating toward those more stable companies, which have risen less this year, he said.

Some analysts blamed the day's decline on a new wave of al Qaeda threats, as well as recent allied deaths in Iraq. But there were few signs of fear in the financial markets, as gold prices fell, the dollar rose, and Treasury bonds were little changed.

The biggest problem facing stocks at the mo-

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Markets Diary/ *Trading for Monday, November 17, 2003*

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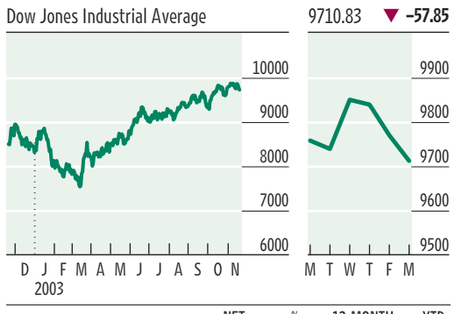
Stocks

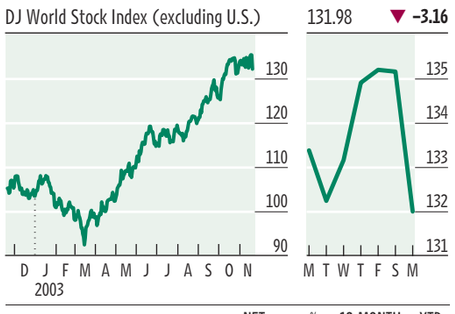
Dow Jones Industrial Average 9710.83 ▼ –57.85



INDEX	CLOSE	NET CHG	% CHG	12-MONTH % CHG	YTD % CHG
DJIA	9710.83	–57.85	–0.59	+14.43	+16.41
Nasdaq Comp.	1909.61	–20.65	–1.07	+37.02	+42.99
S&P 500	1043.63	– 6.72	–0.64	+15.91	+18.62
Russell 2000	526.21	– 6.75	–1.27	+37.54	+37.36

Global Stocks

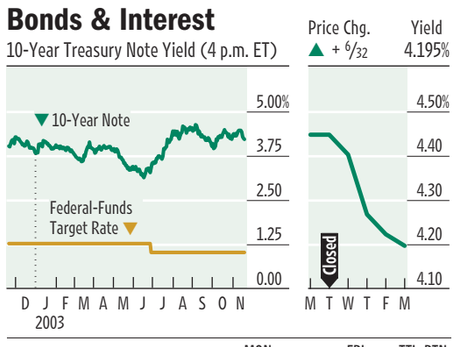
DJ World Stock Index (excluding U.S.) 131.98 ▼ –3.16



INDEX	CLOSE	NET CHG	% CHG	12-MONTH % CHG	YTD % CHG
DJ World (ex. U.S.)	131.98	– 3.16	–2.34	+25.62	+26.26
Nikkei 225	9786.83	–380.23	–3.74	+17.26	+14.08
DJ Euro STOXX 50	2586.05	– 70.89	–2.67	+ 0.52	+ 8.37
MSCI EAFE	1166.33	– 25.49	–2.14	+21.13	+22.43

Bonds & Interest

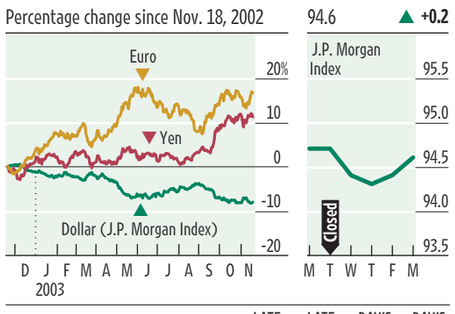
10-Year Treasury Note Yield (4 p.m. ET) Price Chg. ▲ + 6/32 Yield 4.195%



*via Ryan Labs	MON	MON YIELD	FRI	FRI YIELD	TTL RTN YTD % CHG
10-year Treasury note	100.44	4.20%	100.26	4.22%	*+ 1.45
3-month Treasury bill	0.93	0.93	0.93	0.93	*+ 0.93
DJ Corporate Bond Index	173.93	4.73	173.41	4.78	+ 9.24
Lehman Brothers MBS	1075.67	4.91	1074.29	4.94	+ 2.46

U.S. Dollar

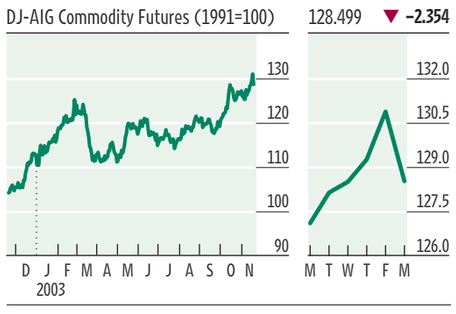
Percentage change since Nov. 18, 2002 94.6 ▲ +0.2



CURRENCY	LATE NY	LATE FRI	DAY'S HIGH	DAY'S LOW
Euro (in U.S. dollars)	1.1755	1.1782	1.1848	1.1729
Japanese yen (per U.S. dollar)	108.92	108.31	108.26	109.74
British pound (in U.S. dollars)	1.6927	1.6872	1.6939	1.6864
Canadian dollar (per U.S. dollar)	1.3125	1.3024	1.2998	1.3151

Commodities

DJ-AIG Commodity Futures (1991=100) 128.499 ▼ –2.354



	CLOSE	CHANGE	FRI	YR AGO
DJ-AIG Commodity Futures	128.499	– 2.354	130.853	104.020
Oil (Nymex crude future), bbl.	$ 31.73	– 0.64	$ 32.37	$ 26.71
Gold (Comex spot), troy oz.	$391.50	– 6.30	$397.80	$319.20
Wheat (#2 hard KC), bu.	$3.9475	–0.0200	$3.9675	$4.6725

Is Pension Crisis a Scapegoat?

Continued From Page C1

costs stemmed from accounting changes. Like most companies, Morgan Stanley lowered the discount rate it uses to calculate pension liabilities, and lowered its assumption for what the pension assets would earn.

Most companies have made similar adjustments when estimating their pension obligations, which have sent their pension liabilities and expense soaring. (Such recalculations don't mean that companies have to pay more money to retirees or, in many cases, even contribute more money to their pension plans.)

A Morgan Stanley spokeswoman doesn't dispute this information but adds that, despite the cuts, the company's new pension plan is "highly competitive."

Similarly, Watson Wyatt, a big pension and benefits-consulting firm based in Bethesda, Md., told its employees this summer that it would stop contributing to 401(k) plans, and instead use the money "to offset the increased cost of the pension plan and to help fund [fiscal 2004] bonuses." The company also cut pensions.

Filings show that while Watson Wyatt's annual pension accounting expense—a noncash cost—did jump in 2002, the increase was largely the result of cuts in the discount rate and declining investment returns in recent years, which are amortized into the income statement over time.

Eric Lofgren, global director of the company's benefits-consulting group, says that the elimination of the 401(k) match was a temporary change in response to temporary setbacks in the pension plan. In contrast, the cut in pension benefits, which he called small, was primarily a retention tool, he says. With slower pension buildups, older workers need to work longer, he says, so the moves were motivated "primarily due to our desire to keep people longer" at the company.

Some experts, such as Mr. Ciesielski, wonder if some employers are using the so-called pension crisis as an excuse to cut pensions in order to save money rather than because of any market-driven problems.

That's what retired US Airways pilots allege. Earlier this year, US Airways, based in Arlington, Va., terminated the pilots' pension plan, saying it was so underfunded that the burden of contributing money to it would prevent the company from emerging from bankruptcy.

The retired pilots, who unsuccessfully sued to stop the termination, said the company was exaggerating its pension problem simply to dump a liability. They are now receiving reduced pensions, paid by the Pension Benefit Guaranty Corp., a quasipublic pension insurer that took over the plan.

Now, the airline is saying that the pension plan wasn't so underfunded after all. It's back in U.S. Bankruptcy Court in Alexandria, Va., arguing the pension liability is actually only about $900 million, not the $2.5 billion estimate publicized last spring. A lower liability means that the PBGC would be entitled to less of US Airways' assets.

"Shame on them," says Tom Davis, spokesman for the Retired Pilots Association of US Airways. "Their first objective was to terminate the pension, so evidence was presented to support that. Now their objective is to keep the PBGC from getting money, so they're saying the plan isn't so underfunded after all."

Chris Chiames, a spokesman for US Airways, says the company terminated the pension to keep the airline from being liquidated and not simply to save money, and adds that the company always disagreed with the underfunding estimates. "The request to terminate the plan was carefully scrutinized and met with rigorous tests," he says. "The actuarial estimates were reviewed by the bankruptcy court, the PBGC, and its own independent actuaries as well. In addition, multiple government agencies were all involved in the decision."

Although most companies don't go so far as to terminate their pension plans, employees and retirees still have a hard time evaluating claims that their pension plans are an undue burden on their employers.

That may be changing. In August, the American Bar Association's leadership announced that it would be cutting the pension plan for 900 staffers, citing stock declines and low interest rates, even though both trends had reversed themselves this year. But 400 skeptical ABA staffers passed the hat and collected more than $10,000 to hire legal counsel and an actuary to go over the pension plan in detail.

The actuary, Kathleen E. Manning of MWM Consulting Group in Chicago, found that the pension plan was well funded, and, in a report presented to the association in August, noted that the liability—and future costs—of the pension looked unreasonably high because the association's projections assumed that interest rates and investment returns would remain seriously depressed.

She added that a likely rise in interest rates and the stock market's continuing recovery could solve much of the ABA's potential pension problem.

Laurel Bellows, chairwoman of the ABA's pension review committee, agrees that much of the staff-arranged actuarial report is "sound," though she maintains that the ABA's own analysis concluded that keeping the pension plan would cost more than ABA leaders had said the organization could afford to spend in coming years.

Some of the staff members' strongest supporters are attorneys who belong to the ABA—including lawyers who design and analyze pension plans—and who don't even benefit from the pension plan. Several questioned whether the ABA was exaggerating the pension's potential costs to make up for cost overruns in an information-technology overhaul. Ms. Bellows said the cost overruns are unrelated to the pension issue. "This is an economically driven discussion," she says.