MarketWatch

10 biggest financial-market events this week

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Published: Jan 16, 2015 1:08 p.m. ET

The Swiss 'tsunami,' oil stocks and bank earnings led the news

Bloomberg News/Landov

Pressure was building on the Swiss National Bank to end its policy of maintaining a minimum exchange rate of 1.20 Swiss francs to the euro, but the announcement crushed Swiss stocks, since the country's exports will be much more expensive.

MarketWatch rounded up the 10 most important news events of the past week. We focused on market-related issues, but we've included other subjects of interest to readers.

1. A Swiss-made 'tsunami'

The Swiss National Bank's decision on Thursday to end its policy of maintaining a minimum exchange rate of 1.20 Swiss francs to the euro caused quite a panic in financial markets. The Swiss currency CHFEUR, +0.00% gained 23% against the euro on Thursday, and was trading just below parity with the euro on Friday. The franc rose 21% against the dollar on Thursday and was trading Friday at $1.15.

The SNB had maintained its current parity policy since 2011, but there was a limit to how many euros the bank could purchase in order to prop up the common currency's value. The bank released a statement saying its "exceptional and temporary" measure had "protected the Swiss economy from serious harm," but that it was giving up the currency cap because "divergences between the monetary policies of the major currency areas have increased significantly."

In an effort to mitigate the damage from the expected rise in the value of the franc, the Swiss National Bank lowered certain deposits to -0.75% from -0.25% and lowered its target range for LIBOR to between -1.25% and -0.25% from the previous range of -0.75% to 0.25%.

Swatch Group SA UHR, -1.92% CEO Nick Hayek called the currency move a “tsunami,” and watched his company’ stock drop 20% on Thursday. Sara Sjolin rounded up the shocked reactions of economists and traders to the surprise move.

Sjolin also discussed just how much more expensive a trip to next week’s World Economic Forum had become

Currency traders normally look for fluctuations of a few basis points in a day, which means that trades are highly leveraged in order for the gains (or losses) to be meaningful. The pop in the Swiss franc caused tremendous losses for many highly leveraged traders, leading Alpari (UK), a foreign exchange broker in London, to declare insolvency.

FXCM Inc. FXCM, -15.06% the largest retail foreign exchange broker in the U.S. and Asia, said Thursday’s volatility had left it in a negative equity position of $225 million and that it was trying to raise capital.

FCXM’s stock was down 15% Thursday, and was down another 88% in premarket trading Friday. Regular trading was halted, pending an announcement from the company.

William Watts discussed other potential shock waves for financial markets.

2. ‘Get rich’ from despised stocks

Despite the turmoil over the Swiss franc, one of the most popular MarketWatch articles on Thursday was Brett Arends’ discussion of how “stocks most hated by Wall Street” keep beating the overall market.

Over the past seven years, Arends has tracked the performance of the 10 stocks with the lowest ratings and found that “the stocks the analysts liked the least have outperformed both the stock market index, and the stocks the analysts like the most, by a country mile.”

This week, Mark Hulbert made the case that Time Warner Cable Inc. TWC, +2.36% — loathed by many of its customers but not disliked by Wall Street analysts — might be a worthwhile investment. Hulbert also pointed out that shares of Amazon.com Inc. AMZN, +1.32% a very well-liked company, had fallen 22% during 2014.

3. Should you buy oil stocks based on current prices?

On Wednesday, I pointed out that most Wall Street analysts were basing their 2015 earnings estimates for major oil companies on where they expected the price of oil to end up (roughly $75 a barrel), rather than where the price of oil is today. This wishful thinking could lead some investors into jumping in too quickly.

Oppenheimer analyst Fadel Gheit updates his earnings estimates each Friday, based on current prices for West Texas Crude CLG5, +4.82% and Brent Crude LCOH5, +3.38%

It is, of course, too early to know exactly when the price of oil will make a significant recovery, but here are some interesting numbers. The average price for Brent crude was $99.40 a barrel in 2014, according to FactSet. Back in 2008, the average price for Brent was $98.39, falling to an average of $62.81 in 2009. This caused Exxon Mobil Corp.’s XOM, +2.43% earnings to slide by 54%.

Analysts polled by FactSet, on average, estimate Exxon Mobil earned $7.27 a share in 2014, and that the company’s earnings will decline by 45% this year to $5.01. The stock closed at $88.96 Thursday and traded for 17.8 times the consensus estimate. But the stock trades for a very high 33.6 times Gheit’s 2015 estimate of $2.65 from last Friday, which was based on prices of $51.68 a barrel for West Texas crude and $55.20 for Brent crude.

So quite a bit is riding on how quickly overall oil production will decline.

Looking out much further, Brent futures for December 2016 delivery are trading for more than $65 a barrel, rising to $72 a barrel for 2018 delivery. Campbell Harvey, a finance professor at Duke University, discussed the market's optimism for oil prices with Mark Hulbert, and said investors looking at current prices might be overreacting. Hulbert discussed several ways to play the anticipated rise in oil prices.

4. Bank earnings disappoint

The "big four" U.S. banks all reported their fourth-quarter results this week. Wells Fargo & Co. WFC, +1.81% met analysts' expectations, while J.P. Morgan Chase & Co. JPM, +1.71% disappointed investors with another quarter of high legal expenses and a 2% decline in total revenue from a year earlier.

Here's a look at why Wells Fargo is likely to continue outperforming J.P. Morgan Chase, which has the disadvantage of a more complicated business model, with higher regulatory capital requirements and a political target on its back.

David Weidner questioned whether management might be the real problem at J.P. Morgan.

Bank of America Corp. BAC, +1.18% reported its best quarterly earnings of 2014, although its performance was distinctly mediocre, with a return on common equity of only 4.84%.

Citiroup Inc. C, +0.80% saw most of its fourth-quarter earnings wiped out by $3.5 billion in legal and "repositioning" expenses.

Here's a discussion of Bank of America and Citigroup stocks, which are favored by the majority of sell-side analysts. Then again, Edward Jones analyst Shannon Stemm said that rather than invest in Bank of America, "if you are going to take that type of risk, I would do it in a cheaper stock, such as Citigroup."

5. GM takes on Tesla

General Motors Corp. GM, +0.75% last weekend said it would launch its $30,000 electric car called the Chevrolet Bolt in 2017, which will compete directly with Tesla Motors Inc.'s TSLA, +0.63% Model 3, which is expected to hit the market the same year.

Meanwhile, Tesla CEO Elon Musk said on Tuesday that the electric-car innovator wouldn't turn a profit until 2020. When discussing the decline in oil prices, Musk said: "Even in the face of massively declining oil prices, I think it only becomes more urgent that the industry advance its development of electric vehicles. It's really just a question of when it goes fully electric, and if it goes sooner that will be good for the world."

Tesla's stock is down 14% this year through Thursday's close at $191.87, following a 48% gain during 2014. Claudia Assis said Tesla's slide to an eight-month low is overdone.

Getting back to GM, the company said it was planning $9 billion in capital expenditures this year and would invest more than $12 billion in developing Cadillac vehicles over the next five years.

GM's stock is down 4% this year through Thursday's close at $33.43, following a decline of 11.5% during 2014.

6. Google

Google Inc.'s GOOGL, +1.28% class A shares are down 5% this year, the same amount as for all of 2014. The company achieved a 20% year-over-year increase in revenue during the first three quarters of 2014, although its earnings per share were flat.

The company split its stock into Class A and Class C GOOG, +1.25% shares last April in order for Google's founders to maintain voting control. Only the Class A shares have voting rights, and any additional shares the company issues will be

Class C. Through the third quarter, the two share classes had the same earnings per share.

Jeff Reeves listed seven reasons investors are wrong about Google, and said the stock's valuation is "at worst, fair."

Ophir Gottlieb said Google's heavy spending on research and development will pay off in the long run.

7. Apple

Apple Inc.'s AAPL, -0.78% stock is down 3% this year through Thursday's close at $106.82, following a lovely return of 41% last year. The stock trades for 12.5 times the consensus 2016 EPS estimate of $$8.57, which is quite a discount to the forward price-to-earnings ratio of 14.3 for the S&P 500 Index SPX, +1.34%

Cody Willard said Apple and Google still have "lots of long-term upside."

Credit Suisse analyst Kulbinder Garcha upgraded Apple to an "outperform" rating on Tuesday, with a $130 price target.

Another good piece of news for Apple and its shareholders was a report of "significant growth" of Apple Pay usage by Whole Foods Market Inc. WFM, +1.72%

8. Warnings about overvalued stocks

Mark Hulbert said on Tuesday that the stock market is overvalued any way you look at it, although that doesn't necessarily mean a crash is imminent.

L.A. Little pointed out that listening and reading market gurus' predictions of a crash for so many years "gets old," and said, "you cannot get a crash until you get the structure in place to allow it." According to his technical research, the market isn't set up for a crash over the short term.

9. Personal finance

Elizabeth O'Brien's list of 10 things contractors won't tell you is quite an eye-opener, and important reading for anyone who plans to have a home built or renovated, or knows someone who might do either. There was plenty of passionate feedback in comments from readers.

Stan Haithcock provided some warnings about life-insurance annuities.

10. Retirement

Social Security has started sending paper statements for the first time since 2011, and you can review the same information by going to socialsecurity.gov. Have you ever reviewed your Social Security statement? Well, you should. It can help you to understand just how much more money you had better save up, so that you can generate sufficient income to maintain the standard of living you wish for when you are no longer able to work.

Kerry Hannon discussed what to look for in your Social Security statement and the importance of having errors corrected.

Jonathan Clements reviewed three things we believe about Social Security, mortgages and bonds that are wrong, based on reader mail.

Richard Eisenberg shared secrets of successful retirement savers.
