

Institutional Investor

First Coverage Outlook for May: It's up to Senator Dodd and Congress

By Roland Beaulieu
May 3, 2010

As I put fingers to keyboard, the market is having a good day. Influenced by the Greece bailout, April auto sales jumping drastically, and overpriced oil due to what is unfolding in the Gulf of Mexico.

This was a weekend to remember, no doubt about it. Friday afternoon Goldman got socked again with a criminal fraud complaint from the U.S. Attorney's Office in Manhattan, sending its stock and the market plunging. Yet by Saturday the Gulf oil spill had taken over headlines, and the price of oil began to skyrocket. Also, around the same time, the EU and IMF reached an agreement to bailout our Grecian friends, which gave European markets and our markets a much-needed morsel of good news to start our workweek. All while the largest terrorist attack (thankfully unsuccessful) hit New York City since 9/11.

With so much unfolding at once, it's hard to discern what will really drive this market. For the month of May, based on the conversations we are seeing on the First Coverage platform, we believe there will be two major stories to watch.

First, the Gulf oil spill: As things only continue to get worse, and Federal officials game out worst case scenarios where so much oil could spill into the sea it could eventually end up on our shores here in Boston, it's hard not to be distracted and easy to let the market news take a back seat as we watch such a catastrophe unfold. But, looking logically at the situation, the leak will eventually be stopped and the world will not end, but oil prices could continue to climb for a long time to come if things just continue to get worse.

Second, Financial Regulatory Reform: Again, as I write this, most Federal resources are focusing on the Gulf oil spill, the NYC Terrorist attack, or the tornado that just ripped across the Midwest leaving 11 dead. However, as things hopefully quiet down and the Senate gets back to business before the summer recess, we will see a conclusion to the financial regulatory reform battle that could cause some market volatility. The last week of April, Senator Dodd and his Banking Committee, after three tries, were able to get the bill open for floor debate, so this will likely be the month we will see decisive action. Now, many speculators and commentators are saying the bill is pretty much finished and this will wrap up shortly – we agree with that sentiment. What we don't agree with is that this bill could set off a looming correction.

What could set off a correction?

As we've said on more occasions than we care to count, predicting the market is akin to predicting the weather. But, we have good technology and smart brain power here that believes that the market is overvalued, and the ultimate zero hour for a

correction will come when the Fed begins pulling bailout money and tightening up interest rates – something that eventually has to happen. But, it's not something that has to happen anytime soon.

What to watch in May?

Keep an eye on Financials as the Senate debate is likely to drive that sector over the early part of May, and as go Financials so go the market. Longer term, as the Gulf oil spill plays out, keep an eye on Oil & Gas companies and the sector as a whole. But most importantly, let's all hope someone from BP or somewhere can get in there and shut off those wells soon before much more damage is done.

Roland Beaulieu is the CEO and President of financial research firm First Coverage, based in Boston. Beaulieu and First Coverage can be reached at info@firstcoverage.com For further information about First Coverage please visit <http://www.firstcoverage.com/>