

Well, May happened.

We saw a sizable market correction in May, but is it over yet?

By Roland Beaulieu

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Boston, Mass – Well, May happened. We started the month with the famous “reboot” of the markets where we saw the Dow collapse 1,000 points, and recover in a matter of minutes. This month also saw some of the most disastrous news that we’ve seen since the financial crisis in the fall of 2008 — both for the markets and for the general population. Let’s start with a few of the many news stories affecting the market, and we will do our best to stay away from the breaking crisis in Israel, as well as the crisis in Korea, as nobody seems to have a firm grasp on what’s going to happen in both regions yet.

First, and most importantly for the markets is the Gulf oil spill. Markets are driven by certainty, and when day-after-day of uncertainty about what is happening with BP’s broken oil well continues, investors are uncertain about what to do – both with Oil & Gas companies and with the market in general. As this column goes to press, there is still no comprehensive understanding of if, or when, the oil well may be capped, and how much damage this spill has done, and will continue to do, to the Gulf and to the American economy. The Gulf has been such a rich resource for Americans — from shrimp, oysters and environmental tourism to the massive amount of oil we’ve already drilled from that region. However, common logic and our First Coverage data suggest that Oil & Gas prices will slowly continue to rise as this crisis plays itself out. Worst-case scenarios are saying it could be the end of August before this well stops spewing oil. This type of talk has driven a bearish shift in sentiment for Oil & Gas companies this week with sentiment for the industry down 3% to 73.93 vs. prior week’s sentiment of 76.27, when the industry saw a major jump in bullishness.

Everyone across the country, from financial services professionals to the fishermen in the Gulf, agree that this is a manmade disaster of biblical proportions. But, as President John F. Kennedy once famously said, “Our problems are made by man, therefore can be solved by man.” When Kennedy made that statement he was referring to the Cuban Missile Crisis and nuclear disarmament, but those immortal words ring truer day after day as we continually search for a cap to this leaking well-head, and then to a comprehensive clean-up strategy.

The Big Question – Is the correction over?

Switching gears from the oil spill crisis to market data and whether or not this correction has legs left in it or not – our data indicates that this correction has run its course. The First Coverage Market Sentiment Index proved to be a true leading indicator as we entered this market correction phase. See our May II.com column titled, “April Showers Bring May Market Correction?”

In early April, we saw the First Coverage Sentiment Index dip to a low point of 55.86, still in bullish territory but dipping enough to indicate a correction was on the horizon. And shortly thereafter, we saw the Dow correct itself about 10%. There has been a wide degree of skepticism about how much further this market will decline, but our data is very clear. On May 21st our Sentiment Index peaked at 60.04 points, pointing to a further market climb in the future, most likely out of correction territory. Given that the financial reform bill is inches away from passing, with no real calamitous affect on the market predicted by every major economist, and with our indicators pointing bullish on almost everything, we believe this correction is over with, for now.

So, what next?

As we’ve said over and over again, predicting the markets is akin to predicting the weather long term. Yet, with so much terrible news on the horizon, from the oil spill, to what is surely to erupt as a firestorm in Israel, to the great deleveraging of American companies, to the Eurozone debt crisis; there is still such a degree of uncertainty in the air that from a common sense, Vulcan like logical perspective, it’s hard to say with any certainty where this market is going.

However, for the time being, the First Coverage indicators are still very much in bullish territory and continuing to look that way. For the month ahead, we caution investors to watch the oil spill and world events closely, and base their investment decisions on how many of the balls in the air land positively as we head into the summer. But as we mentioned, for the short term, our models are still pointing bullish. Investors should place their bets carefully and move forward accordingly; bullish in the short-term, but consider taking a bearish outlook as we move into July and the dog days of summer. There is still a lot of uncertainty in the air in the long term and investors need to be cautious of that.