



Every good ending needs a good story

The turning point of this market came at the end of February.

By Randy Cass
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The conventional wisdom is that March 9 was the turning point in this market—the moment when everything righted itself and a seven-month rally emerged seemingly out of thin air. But the truth is, the moment of change happened at the end of February, not the second week of March.

We know this because it was during that last week of February when our data, which tracks the tone of conversations going on among the major players of Wall Street, isolated a positive turn in sentiment that had been missing for more than half a year.

Citigroup's stock didn't jump 23.8% on March 10 because it was more confident about its financial position; it jumped because two weeks earlier market players had decided to look for any data that would allow them to demonstrate renewed bullishness.

After a few months of hyperbolic returns, there was a tinge of buyer's remorse. In fact, for a week or two in July, the market decided that too much had happened too fast, and there was trepidation that what had easily been created through a change of heart could just as easily be derailed.

Yet, by the start of autumn, what had been an attempt to stop the pain of a devastating bear market over half a year ago had contributed to one of the greatest bull market rallies of all time—all on the back of a change in sentiment.

Now, the only thing that's important is where do we go from here?

In the short term, the brokerage houses are still in love with this market. The advice they are doling out to their portfolio manager clients is as bullish as it has been in more than a year.

Most of that has to do with the concept that the industry has too much vested in this market, including bonuses, performance numbers and reputation, to let it fall before December 31.

All industries with the exception of consumer goods now have bullish sentiment associated with them. What's more, a healthy appetite for risk still exists because much of the advice

being doled out continues to suggest getting long in more volatile sectors such as technology.

It's clear that market players today are in a much more reactive—rather than proactive—mood and are content to go with the flow. That being said, everyone is on the lookout for a data point that could end the good times.

Although it's generally agreed that this data would need to be so incontestable, so unequivocal and so clearly bad that no one could argue that this rally isn't a 2009 version of the emperor's new clothes.

If that data point occurs, then it's likely that industry professionals would suffer broken bones in their haste to get off this bull market bandwagon—but until then, all systems are go and market professionals can't see December 31 get here too soon.

Once we turn the page on the calendar, though, then what?

Sentiment shifts happen quickly. While we can extrapolate trends from current data, we can't pretend to predict the future with certainty—but here is what we can already say about next year.

Sentiment trends typically last anywhere from two and a half to three and a half months, which makes this one truly long in the tooth.

The end of a sentiment trend can be abrupt and is usually preceded by an abandonment of the same stocks and industries that were loved mere weeks before.

While it's clear that sentiment is driving this market, the things that drive sentiment can be less clear, more subjective and harder to understand in the moment.

Regardless of the catalyst, starting in 2010, we expect that any sustained turn in the market would be preceded by a decline in the affinity for technology and financial services.

Turning the bear market seven months ago was a mission that inspired industry participants in an almost evangelical manner.

Now, getting to the end of the calendar year with bonuses and returns locked in is a goal that everybody seems to believe in. But what's going to inspire people on January 1?

Today, the riskiest thing about building a market rally based solely on the will of the people is that when the calendar turns, those people will be exhausted from all their hard work. And the stories in 2010 won't be nearly as inspiring as they were the year before. 4

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