FIRST COVERAGE WEEKLY SENTIMENT (May 5, 2009)

First Coverage Market Sentiment: **Neutral**	First Coverage Index: **50.4**	Weekly Change: **+3.3%**	Sell-Side Certainty: **Negative**
Bullish Industries (2,-1)	**Neutral Industries (7,+1)**	**Bearish Industries (1,-2)**	**Weekly Sentiment Change**
	Basic Materials		Bullish
	Consumer Goods		
	Consumer Services		
		Financials	Bullish
Health Care			
	Industrials		Bullish (x2)
	Oil & Gas (+)		Bullish
Technology			Bullish
	Telecommunication		
	Utilities (+)		Bullish

This week's commentary is to be read in its entirety.

Happy days are here again…at least for this week!

For the first time since August 7, 2008, the overall indicator of sell-side market sentiment has breached above the 50 mark, putting the sell-side sentiment in a resounding "neutral" stance. However, for those of you that only look at the table above and read the first paragraph…please read on because there might be more here than initially may meet the eye.

A 3.4% rally in sentiment is actually quite a significant move on the week and lends itself to some interesting interpretation by those of us who live, breathe and ultimately die by these numbers. While we normally focus on the upcoming week as our time period to investigate, a number like this, as you'll see, gives us a reason to look a little further down the pipe.

Over the last few commentaries, we have referred to focusing on “material” shifts in sentiment to squeeze the most utility from this indicator. To put that in numbers, materiality, based on our data set is defined as a 2% shift one way or the other in the weekly sentiment indicator. Clearly this week’s move was material…but was it meaningful?

A move of 2% in either direction is considered “meaningful,” if it happens to be moving in the direction that is contrary to the last move of 2% (The last one was up, this one is down or vice-versa). These “contrary” moves are important as they represent the beginning of a new sentiment trend in the market, and the average duration of a sentiment trend once started is around two to three months. (We have had 10 such trends over the last two years, and they range anywhere from one week to 26 weeks.)

When a 2% move is in the direction of the prior 2% move, these occasions are referred to as “re-enforcement” weeks, and we have had a couple dozen of those over the past two years. They don’t always mean something…but as you’ll see, sometimes they can mean a lot.

So, the first question: Is this week’s 2% move a “re-enforcement” or a “contrary” move?

This week’s indicator is a re-enforcement of a 3.4% bullish signal we obtained on March 9 and wrote about on March 10. (For those who are curious, the March move was a contrary indicator and did reverse a previous bearish sentiment signal we obtained on January 12, 2009 and wrote about on January 13, 2009.)

So, what does a re-enforcement indicator mean? Well, that’s where we look at the data to better understand what we’re looking at.

The duration of the five most recent sentiment periods have been, from oldest to most recent, 19 weeks, 18 weeks, 12 weeks, seven weeks and the current run that sits at eight weeks. As can be seen, the turns in sentiment are occurring more frequently and lasting for shorter durations, which make us think that regardless of this current indicator, this “bullish” sentiment trend might be coming to a close in the next couple weeks.

More importantly, each sentiment trend that we examined over the last two years had a re-enforcing week or two towards the end of its duration. These weeks occur with regularity at the end of a trend, almost as if they represent a “last hurrah” before sentiment turns and, in most cases, the market changes direction. While re-enforcement weeks can occur without a sentiment trend ending, we reiterate that no sentiment run has ever ended without a re-enforcement week occurring. (It’s like the old logic puzzles on the GMAT and LSAT exams.)

So, in the meantime, as we wait to see if this is the beginning of the end of the rally or the end of the beginning of the rally, the sell-side has decided that for the short term at least, their buy-side clients should be stepping back into this market and allocate capital to the building blocks of our economy, and by building blocks, we’re talking about Basic Materials, Energy, and Industrials.

Interestingly however, and as a final note, while we sit three days away from the official release of the Stress Test Results (and by official release date, we don’t mean the official leakage date, which apparently was sometime last week), the Financials industry is the only industry that is bearish today on a day-over-day sentiment change and the sole industry left with bearish sentiment overall.

Until next week …

About The First Coverage Weekly Street Sentiment

Derived from the aggregated analysis of thousands of actual trade ideas and data being sent in real-time from the sell-side to the buy-side, the First Coverage Weekly Street Sentiment provides a snapshot of market trends and a unique perspective of the mindset of the Street for the week ahead. The following data has been extracted directly from all information transmitted in the past week by sell-side representatives from more than 250 firms submitting information to portfolio and asset managers across North America via the First Coverage platform.

About First Coverage

Catering to more than 300 financial institutions worldwide, First Coverage provides a web-based platform that simplifies the gathering, evaluation and organization of all sell-side services and information. For more information, visit www.firstcoverage.com or contact us at info@firstcoverage.com.

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