

FIRST COVERAGE WEEKLY SENTIMENT (June 30, 2009)

First Coverage Market Sentiment: Bearish	First Coverage Index: 52.4	Weekly Change: -1.7%	Sell-Side Certainty: Negative
Bullish Industries (5)	Neutral Industries (4)	Bearish Industries (1)	Weekly Sentiment Change
Basic Materials			
		Consumer Goods	
	Consumer Services		
	Financials		
Health Care			
	Industrials		Bearish (x2)
	Oil & Gas		Bearish (x2)
Technology			
Telecommunication			
Utilities			

Sell-Side tells Buy-Side, “Rally is over...Last one out, don’t forget to turn off the lights!”

After 16 weeks, 35% gains and more prayers to assorted deities than you can shake a stick at, the sell-side sentiment fell enough between Friday, June 19, and Friday, June 26 to cause the first “sell” signal since the First Coverage Market Index (i.e., sell-side sentiment) turned bullish at the start of March. And, even though Monday saw sentiment tick up a touch, and there was uncertainty reflected in the sell-side closing out more positions than they opened last week, as they say in the Old West, “The damage, she be done, and we be short!”

So, what are you supposed to do now?

We’ve waited 16 weeks for the sell-side to throw in the towel and now it’s happened. What’s your next move and how predictive are these sell-side shifts known to be?

Let's start with the easier question of the two. How predictive? Well, the last two shifts of the First Coverage Market Index occurred on the following dates:

Last Bearish Shift:

January 16, 2009 S&P 500 Return until Index went Bullish: -19.6%

Last Bullish Shift:

March 6, 2009 S&P 500 Return until Index went Bearish: +34.3%

Over the last two and a quarter years, the sell-side has shifted their opinion on the market 14 times. These sentiment shifts have led to trends that ranged in duration from one to 26 weeks, and on average around 10 weeks. Had someone simply been following these "switches," they would have been on the right side of most sustained trends in the market since 2007 and managed to turn \$1 into more than \$3.

Any signal that triples money over a two-year period demands scepticism, especially when that signal is based on the collected opinions of a group of people that have their own, individual agendas. So, the next question that needs to be addressed is, "Why, in this market condition, would something like "sentiment" be working so well when most traditional indicators have struggled to make money for portfolio managers since August 2007?"

We wrote about this recently in a 12-page white paper, and the conclusion was that there is quite a bit of capital that used to be run in a highly levered manner by quant funds that is no longer in the market place. Post the August 2007 quant melt down, the capital was either redeemed or levered way back, leaving a void where algorithms were historically used to balance off fundamental sentiment-driven investors (or irrational investors depending on your bias) and drive down market volatility.

Over the last two years, without this arbitrageur capital in play, this market became a lot more volatile (check the VIX) and susceptible to the whims and desires of investors to take it higher or lower. In fact, if you've read this weekly commentary in the past, you would know that the sell-side's steadfast bullishness since March 6 is exactly the type of unwavering optimism' that we contend gave way to a rally in which all data — good, bad or indifferent — was given the benefit of the doubt and continued to propel the market higher.

But now things are different and unlike other sentiment indicators out there that try to distil some form of market activity into a proxy for sentiment (e.g., put/call ratio, earnings revisions, etc.), this indicator does not take the standard belief that activity equals sentiment. In fact, this indicator is predicated on the notion that activity will follow a shift in sentiment.

It's a given that sentiment is formed ahead of action being taken, and this index is gathered by examining the thousands of ideas and conversations that are being discussed between the sell-side and the buy-side in real-time (read the small print below). When our index demonstrates a significant change in sentiment, it is a reflection of enough people from enough firms telling enough clients on the buy-side that things are different. Those conversations in isolation aren't enough to change any person's

opinion. But in the magnitude that's necessary to cause a significant move in our indicator, now you have the start of a sentiment shift. Enough of those conversations happening at the same time combined with current market conditions, and you have typically, but not always, seen a significant change in asset allocation one to two weeks down the road.

So, while you are mulling all that over, here are the five stocks that underwent the most bullish and bearish shifts in sentiment over the last week:

Bullish Shifts		
RIO	RIO TINTO	Basic Materials
ASIA	ASIAINFO HLDGS INC	Technology
COS-UN	CANADIAN OIL SANDS TRUST UNITS	Oil & Gas
CAG	CONAGRA FOOD INC	Consumer Goods
FISV	FISERV INC	Industrials

Bearish Shifts		
PAYX	PAYCHEX INC	Industrials
MAS	MASCO CP	Industrials
PH	PARKER HANNIFIN CP	Industrials
MHK	MOHAWK INDS INC	Consumer Goods
CAKE	CHEESECAKE FACT	Consumer Services

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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