

## FIRST COVERAGE WEEKLY SENTIMENT (June 7, 2010)

First Coverage Market Sentiment: <b>Bullish</b>	First Coverage Index: <b>59.4</b>	Weekly Change: <b>-1.0%</b>	Sell-Side Certainty:  Positive
Bullish Industries (9,-1)	Neutral Industries (1,+1)	Bearish Industries (0)	Weekly Sentiment Change
Basic Materials			<b>Bearish</b>
Consumer Goods			
Consumer Services			
Financials			
Health Care			<b>Bearish</b>
Industrials			<b>Bearish</b>
Oil & Gas			
Technology			
	Telecommunication(-)		
Utilities			

### **Sell-Side Sentiment Still Bullish in Face of Stock Market Declines**

#### Stocks Took It on the Chin Last Week

It was a shortened week because of the Memorial Day holiday. The market was focused on the Friday employment reports. Unfortunately, once the report came it was a huge disappointment that led to the massive decline in market indices on Friday. The DJIA closed below 10,000. Another milestone falling was the Euro closing below \$1.20. The major US equity indices were down about 2% for the week. A decline on Tuesday was more than offset by the optimism of the next two days on a good employment report. The brunt of the week's decline fell on Basic Materials, down about 6%, and Financials and Industrials, each down almost 4%. Least affected was Technology with a hit of just under 1%.

Is recent market action merely a pause before the traditional summer rally, or does the decline last through the summer? Is last week's market decline more of the correction already underway in a bull market or is it the continuation of the early stages of a new bear market. It's all about jobs, jobs, jobs.

### **Sell-Side Sentiment Edged Down for the Week**

Although sell-side sentiment fell 1%, it remains in bullish territory. The greatest drops in sentiment were in Basic Materials and Health Care, both down 6%. Five industries declined by more than 2%, while only one rose by more than 2%.

### **Most Favored Triumvirate**

Oil & Gas, Industrials, and Health Care remained the top three rated industries for the fifth week in sell-side sentiment. Last week, as has been the case in each of those five weeks, the order within the group changed. In this latest shuffle, sentiment for Oil & Gas shot up almost 3% to regain the top spot it held three weeks ago. Industrials and Health Care fell back 3% and 6%, respectively.

Oil & Gas continues in a strong upward pattern that began just over a month ago. In August 2008, Oil & Gas hit the highest sell-side sentiment rating seen so far in the 29 months First Coverage has been tracking data. Sentiment for Oil & Gas was cut in half over the next eight months, but then recovered about 80% of that drop by mid-December 2009. In the next four months, sentiment fell 20%, but quickly recovered in the past six weeks to surpass the mid-December high.

The upward trends for both Industrials and Health Care began in mid-March. They may still be in up trends, but the data of the last few weeks could also indicate that the roll-over has begun. Any significant change in sentiment for either industry this week could be very meaningful.

### **Financials**

The FCIC hearings last week reminded the markets that just because the Senate passed the FinReg bill (aka the Wall Street bill) the potential damage to the Financials industry is not over. In addition to reconciliation of the FinReg bill by Congress, let us not forget that there will be ongoing inquiries, investigations and indictments to come in the industry. Sell-side sentiment believes much of it is already in the price. Although it dropped 1% last week, sentiment for Financials continues on its upward path. Financials merit consideration for those who want to be early, but keep in mind that Financials rank eighth in sentiment rating among the ten industries.

### **Sentiment to Sell is Still Hard to Find**

Telecommunications and Consumer Goods remain the lowest rated industries. Both had modest declines in sentiment last week, but not enough to say that either has broken their upward trends of recent months. However, any further declines in either next week would indicate that a new down trend was underway. Sentiment for both still remains in the neutral category.

### **Hard to Extract Much Meaning from Economic Reports**

Distortions! Distortions! What's a poor investor to do?

Whether it's the employment numbers, retail sales or housing data, there have been unique circumstances in recent releases that make it hard to analyze the true meaning of the data. All are

important yardsticks for ascertaining the recovery in consumer spending, the key to the nature of this recovery. The employment numbers are muddled by the hiring of census workers the last few months, especially in May. Retail numbers for March and April were distorted by an early Easter, and housing data has been confused by the expiration of the tax credit. Home purchases had to be under agreement by April 30 and closed by June 30.

The 800-pound gorilla among monthly economic reports nowadays is always the employment report. Without question, the event of the past week and the past month was the Friday release of employment numbers. The market was expecting net job additions of about 525k. The 431k reported was a clear disappointment. It was even worse when one dug behind the headline number. Hiring of temporary census workers accounted for 411k additions. The most worrisome number was private sector job additions were only 41k.

Even worse, employment faces some tough head winds over the next few months or so. High school and college grads are now entering the job market. Starting in July, and accelerating over the next month or so, most census workers will be looking for new jobs. Lastly, as stimulus money rolls off, municipalities will be laying off employees. The headline numbers may not look good for a while.

Some of the other economic reports last week required digging behind the headlines. May retailer same-store sales reports may have some value as indications of consumer spending. The March and April reports had been hard to draw conclusions from because of the early Easter selling season this year. March was up 9.0% year-over-year, but April was only up 0.8%. The 2.6% gain for May was well below the 4.9% for those prior two months.

April pending home sales shot up 6% from March and 22% year-over-year. But they benefited handsomely from the aforementioned tax breaks. In addition some of those signing agreements may not be able to close on their deals. From now on, housing numbers will not show benefit from tax breaks.

This week brings a modest amount of meaningful economic data. Tops will be Friday's May retail sales and June University of Michigan's consumer sentiment. May retail sales are only expected to show a 0.2% gain over April, but distorted by the comparison to a month hurt by the early Easter season. Rather than data, the real economic news this week may be comments from the Fed chairman on a Monday TV appearance and/or in his Wednesday appearance before the House Budget Committee.

### **Stocks to Watch**

Over the last week, the following stocks had the largest bullish and bearish sentiment shifts amongst the sell-side.

**Bullish:**

Symbol	Company	Industry	Exchange
BCY	Bucyrus International Ord Shs	Industrials	NASDAQ
CRUS	Cirrus Logic Ord Shs	Technology	NASDAQ
AOL	AOL Ord Shs	Technology	NYSE
UPS	United Parcel Service Class B Ord Shs	Industrials	NYSE
PENN	Penn National Gaming Ord Shs	Consumer Services	NASDAQ

**Bearish:**

Symbol	Company	Industry	Exchange
MMM	3M Ord Shs	Industrials	NYSE
DPS	Dr Pepper Snapple Group Ord Shs	Consumer Goods	NYSE
TOL	Toll Brothers When Issued	Consumer Goods	NYSE
MEOH	Methanex Ord Shs	Basic Materials	NASDAQ
LLY	Eli Lilly and Ord Shs	Health Care	NYSE

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 300 firms submitting information to portfolio and asset managers worldwide 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](http://www.firstcoverage.com) or contact us at [info@firstcoverage.com](mailto:info@firstcoverage.com).*

**For media inquiries, please contact Deborah Jorge at First Coverage:  
Deborah.Jorge@FirstCoverage.com, 617-303-0067 (office) or 413-531-0959 (mobile).**

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