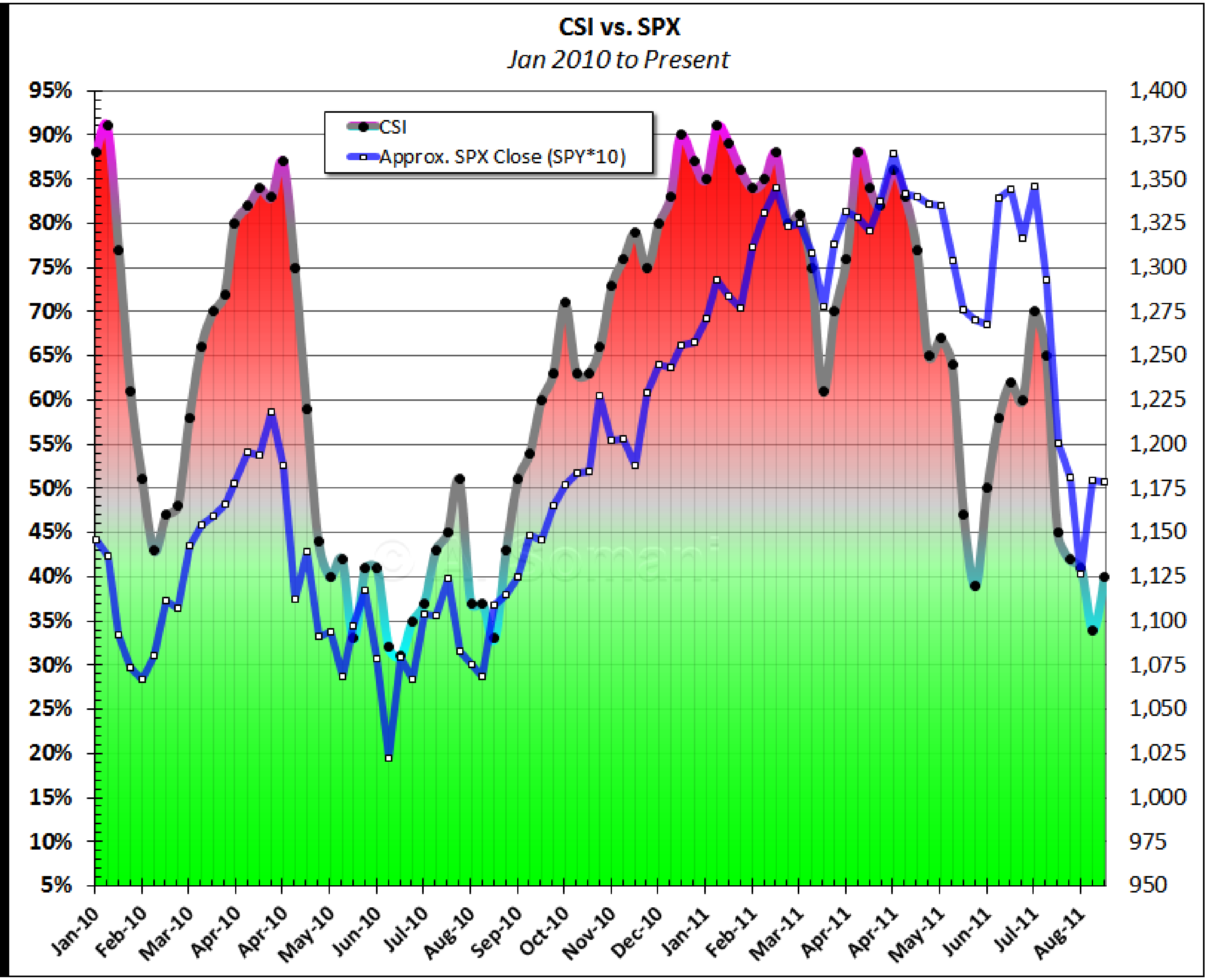
# Crowd Sentiment Index (CSI) for US Equities

*The Crowd Sentiment Index (CSI) for US Equities is a smoothed and normalized composite of crowd sentiment (ranking from 0-100%) on the US stock market that is derived from various daily and weekly sentiment guages prepared externally by third parties.*

**Imprecise CSI Interpretation Guidelines**

| | *Bull Mkt.* | *Bear Mkt.* |
|---|---|---|
| *Extreme* | 86-100% | 0-8% |
| *Overweighted* | 71-85% | 9-18% |
| *Neutral* | 56-70% | 19-29% |
| *Overweighted* | 46-55% | 30-38% |
| *Extreme* | 27-45% | 39-56% |

| Date | Approx. SPX Close (SPY*10) | %Ch. | CSI | Ch. |
|---|---|---|---|---|
| 6/17/2011 | 1,271 | 0% | 39% | -8 |
| 6/24/2011 | 1,268 | 0% | 50% | 11 |
| 7/1/2011 | 1,339 | **6%** | 58% | 8 |
| 7/8/2011 | 1,344 | 0% | 62% | 4 |
| 7/15/2011 | 1,317 | -2% | 60% | -2 |
| 7/22/2011 | 1,346 | 2% | 70% | 10 |
| 7/29/2011 | 1,293 | -4% | 65% | -5 |
| 8/5/2011 | 1,201 | **-7%** | 45% | **-20** |
| 8/12/2011 | 1,181 | -2% | 42% | -3 |
| 8/19/2011 | 1,126 | **-5%** | 41% | -1 |
| 8/26/2011 | 1,180 | **5%** | 34% | -7 |
| 9/2/2011 | 1,179 | 0% | 40% | 6 |



**Just My Humble Opinion**

Within an ultimately flat week for the SPX –thanks in large part to arguably institutionally-driven selling on Thursday and Friday, erasing gains from earlier in the week – the CSI still happened to rise by 600 basis points to 40%. The move higher by the CSI is the first one in several weeks but may indicate that traders and investors are not as hesitant to jump on the bullish bandwagon as one might want to see following an important market low. And, while the CSI sits at a level that is (on an intermediate-term / multi-week to multi-month basis) ultimately very positive for bulls within the context of a cyclical bull market, it is not at a friendly level if the SPX is within the context of a cyclical bear market. As discussed in recent reports, I feel whether the SPX is in a cyclical bull market or cyclical bear market is difficult to determine for now (although I would argue that the latter has significantly higher odds, at this time, barring more Fed stimulus measures). To make matters worse, the murky market context may not become much clearer for at least several trading days.

Last week, I suggested that although probabilities favored at least a few more weeks of continued strength for the SPX off its capitulation low from 1100-1125 early last month, it was important one prepared for horrendous economic data and the likely consequence of said data (namely, the market only being able to spend a brief period above SPX 1200 over the course of the week, if that) – especially in case one was seeking to hedge or exit existing long positions in an attempt to avoid what may be an ongoing cyclical bear market. This suggestion may not have had much merit last week until Friday, when it was revealed that no new jobs were created by the US in August – far below even the most pessimistic forecasts from major Wall Street sell-side analysts. Prior to this 'surprising' revelation, news also emerged that a number of major US banks will be taken to court by the government, including an already much in despair Bank of America, over mortgage lending practices in the years leading up to the 2008 financial crisis.

My view, in line with Robert Sinn at his excellent blog, is that, the above news from last week is enough to speculate that the Fed is quite likely (if not certain) to act later this month by either revealing or hinting at some form of new monetary stimulus program, which may or may not get called QE3, but that is likely to be at least a little different in structure to the much maligned QE1 and QE2. This is, of course, going to be complementary to the fiscal stimulus program targeted at increasing jobs that President Obama will be revealing in a speech to Congress this Thursday night (7PM EST). The desperation and desire to act we are seeing on the part of Fed and government officials (in a pre-election year, no less) can put a twist into what anyone might be imagining as far as what is to come for the market in the weeks and months ahead (never mind an apparently quickly defragmenting Eurozone that will continue to be a hot issue for several weeks and could, on its own, lead to a market moving with no rhyme and only apparent reason). So, it seems foolish to me to try and pretend one has any idea where the SPX will close this month, let alone several months from now.

On Aug. 8th the SPX made a momentum low and volatility high on a closing basis that is very likely to be re-tested again in the near future, possibly as early as later this month, as I've discussed in past reports. It is my suspicion that said low will be tested either this month or next, especially as pre-election years ending in the digit '1' (like 2011) tend to see their lows in either Sept. or Oct. The biggest question on my mind, then, is how much further the rally off the Aug. low will continue before the market turns around and targets approximately SPX 1100-1125 – and, also, if said rally already completed last week at SPX 1230 (which is 10% above the Aug. closing low in the SPX)? In my experience, the breadth extremes witnessed in early Aug. were large enough that a lack of even a test of the 50-day moving average by the SPX to this point indicates that the rally is more likely than not to be incomplete. To put it another way, if SPX 1100-1125 gets tested before last week's intraday high at 1230 is definitively broken to the upside, I expect the re-test to be successful and for a larger rally to commence. On the other hand, if SPX 1230 gets definitively broken to the upside in the coming days without the SPX testing the 1100-1125 level, I can only conclude that a re-test of the early Aug. lows is coming later this month or sometime next month, and whether it will hold or not is a discussion that should probably wait (especially in light of the policy changes we are likely to see both in Europe and in the US over the coming weeks). However, I would not make a strong bet, either way, on whether the rally that began in early Aug. has ended or not.

The only thing I feel one can bet strongly on at this time is that the early Aug. lows will be re-tested again at some time in the future – ideally later this month or sometime next month. And, admittedly, even the possibility of a re-test could come into serious question if it does not occur before the Fed announcement later this month and if, for example, the Fed decides to intervene more strongly than anticipated and/or the current Eurozone crisis shows significantly greater promise of resolving for the better than it currently does. If you haven't done so already, carefully ask yourself if the current market environment is really one you feel comfortable risking your hard-earned money in, especially when its reward-to-risk payoff is getting harder and harder to calculate as each day of this month passes (and only two days of it have passed so far!).

***Cautionary Note on Interpretation:*** *The Crowd Sentiment Index (CSI) for US Equities is perhaps best used as a blunt and continuous (as opposed to discrete) indication as to the general market mood toward US equities, which can help a contrarian trader or investor to decide when to increase or hedge/decrease US equities exposure so as to help manage risk effectively and thereby maximize risk-adjusted returns. In a cyclical bull market, it is not unusual for the CSI to remain elevated for extended periods without the market declining in any significant way. Conversely, in cyclical bear markets, it is not unusual for the CSI to remain depressed for extended* *periods without the market rising in any significant way. Furthermore, the CSI is merely one tool a trader or investor can use to analyze markets, and should not be interpreted except in combination with the message being delivered by a suite of other tools the trader or investor feels confident in analyzing markets with.*