

Bullish Sentiment Index (BSI) for US Equities

Rough BSI Interpretation Guidelines

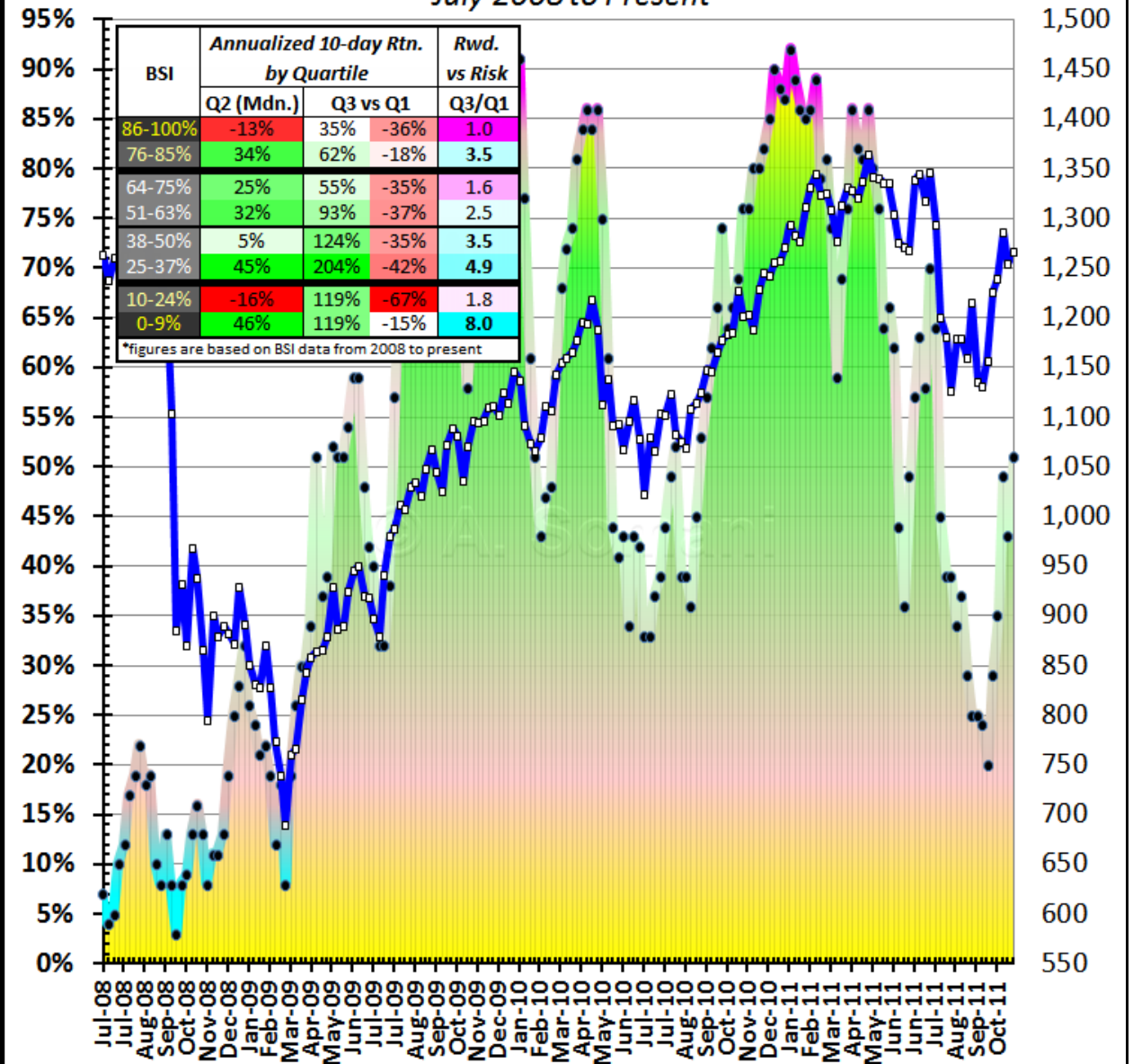
Cyclical Bull Market		Cyclical Bear Market	
Extreme	86-100%	0-9%	Minimal
Alarming	76-85%	10-24%	Limited
Neutral	51-75%	25-37%	Neutral
Limited	38-50%	38-50%	Alarming
Minimal	25-37%	51-63%	Extreme

Date	Approx. SPX (SPY*10)	%Ch.	SPX Stretch from Mean
7/29/2011	1,293	-4%	49%
8/5/2011	1,201	-7%	17%
8/12/2011	1,181	-2%	9%
8/19/2011	1,126	-5%	5%
8/26/2011	1,180	5%	13%
9/2/2011	1,179	0%	30%
9/9/2011	1,159	-2%	38%
9/16/2011	1,215	5%	52%
9/23/2011	1,135	-7%	43%
9/30/2011	1,132	0%	29%
10/7/2011	1,157	2%	27%
10/14/2011	1,226	6%	43%
10/21/2011	1,240	1%	57%
10/28/2011	1,286	4%	71%
11/4/2011	1,255	-2%	73%
11/11/2011	1,267	1%	64%

The Bullish Sentiment Index (BSI) for US Equities is designed to provide a single numerical measurement of total bullish sentiment on the US stock market at any given time. It is normalized, oscillates in a range of 0-100% (where 0% indicates there is no bullish sentiment and 100% indicates bullish sentiment is at its maximum), and is constructed through the application of custom weighting and smoothing mechanisms to various daily and weekly sentiment gauges supplied externally by third parties.

BSI	Ch.	BSI Stretch from Mean
64%	-6	16%
45%	-19	6%
39%	-6	11%
39%	0	9%
34%	-5	9%
37%	3	31%
29%	-8	31%
25%	-4	13%
25%	0	5%
24%	-1	3%
20%	-4	3%
29%	9	2%
35%	6	9%
49%	14	53%
43%	-6	53%
51%	8	69%

BSI vs SPX July 2008 to Present



BSI for US Equities – Summary

Note: I've added a couple of columns above. One is called "SPX Stretch from Mean" and the other is called "BSI Stretch from Mean." They are, for the most part, self-explanatory based on how I've labeled them:

- Low numbers are highlighted in blue and suggest the SPX or the BSI (as applicable) is far below (a custom measurement of) its mean and may start rising soon – and, so, low numbers generally have a bullish connotation.*
- High numbers are highlighted in purple and suggest the SPX or the BSI (as applicable) is far above (a custom measurement of) its mean and may start falling soon – and, so, high numbers generally have a bearish connotation.*

I may comment further on these new columns in the weeks ahead. This week, they are not highlighted – suggesting they are likely not indicating anything significant – so one may be wise to ignore them.

The BSI increased 8% this past week to close at 51%, Meanwhile, the SPX extended its gains from its early Oct. low by approximately 1%. Interestingly, the BSI is above where it was a couple of weeks ago but the SPX is not.

The current level of the BSI should be interpreted within the context of the current cyclical trend:

- Within the context of a cyclical bull market, the current level of the BSI suggests bullish sentiment is neutral – so, there are apparently still many traders and investors who would risk buying into the market that have not yet done so.*
- Within the context of a cyclical bear market, the current level of the BSI suggests bullish sentiment is extreme – so, apparently the vast majority of traders and investors who would risk buying into the market have already done so.*

Cautionary Note on Interpretation: *The Bullish Sentiment Index (BSI) for US Equities and its associated indicators ("SPX Stretch from Mean" and "BSI Stretch from Mean") are 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 BSI and its associated indicators 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 BSI and its associated indicators to remain depressed for extended periods without the market rising in any significant way. Furthermore, the BSI and its associated indicators represent merely one suite of tools a trader or investor can use to analyze markets, and should not be interpreted except in combination with the message being delivered by one or more other suites of tools that the trader or investor feels confident in comprehensively analyzing markets with.*

Disclaimer: *The contents of this report do not represent trading or investment advice or recommendations. Information presented is believed to be accurate but cannot be guaranteed to be accurate. The Bullish Sentiment Index (BSI) for US Equities and its associated indicators ("SPX Stretch from Mean" and "BSI Stretch from Mean") should not be used as a basis for trading or investment decisions and are shared to readers purely for entertainment purposes at the present time. Please consult your Registered Investment Advisor*

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