

Bullish Sentiment Index (BSI) for US Equities

Rough BSI Interpretation Guidelines

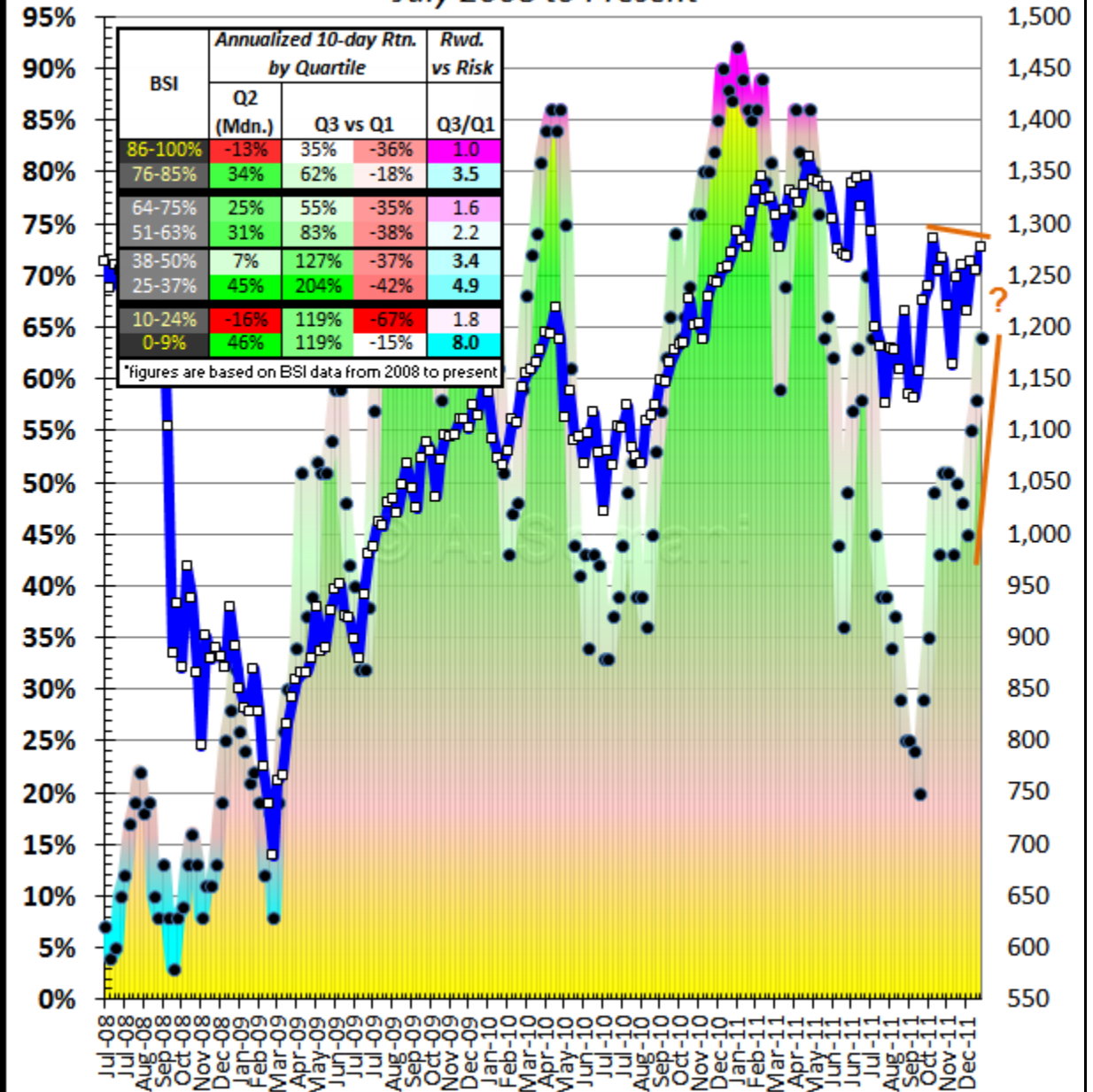
| Cyclical Bull Market | | Cyclical Bear Market | |
|----------------------|---------|----------------------|----------|
| Extreme | 86-100% | 0-9% | Minimal |
| Extended | 76-85% | 10-24% | Shallow |
| Neutral | 51-75% | 25-37% | Neutral |
| Shallow | 38-50% | 38-50% | Extended |
| Minimal | 25-37%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

The Bullish Sentiment Index (BSI) for US Equities is designed to provide a single numerical and comprehensive measurement of 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 third-party sentiment gauges.

| Date | Approx. SPX (SPY*10) | %Ch. | SPX Stretch from Mean (-50 to 50) | BSI | Ch. | BSI Stretch from Mean (-50 to 50) |
|------------|----------------------|------|-----------------------------------|-----|-----|-----------------------------------|
| 9/23/2011 | 1,135 | -7% | 0 | 25% | 0 | -40 |
| 9/30/2011 | 1,132 | 0% | -14 | 24% | -1 | -47 |
| 10/7/2011 | 1,157 | 2% | -22 | 20% | -4 | -47 |
| 10/14/2011 | 1,226 | 6% | -19 | 29% | 9 | -47 |
| 10/21/2011 | 1,240 | 1% | -6 | 35% | 6 | -46 |
| 10/28/2011 | 1,286 | 4% | 14 | 49% | 14 | -30 |
| 11/4/2011 | 1,255 | -2% | 29 | 43% | -6 | 5 |
| 11/11/2011 | 1,267 | 1% | 21 | 51% | 8 | 9 |
| 11/18/2011 | 1,220 | -4% | 4 | 51% | 0 | 21 |
| 11/25/2011 | 1,163 | -5% | -19 | 43% | -8 | 19 |
| 12/2/2011 | 1,249 | 7% | -26 | 50% | 7 | 17 |
| 12/9/2011 | 1,261 | 1% | -24 | 48% | -2 | 32 |
| 12/16/2011 | 1,216 | -4% | -23 | 45% | -3 | 32 |
| 12/23/2011 | 1,264 | 4% | -5 | 55% | 10 | 34 |
| 12/30/2011 | 1,255 | -1% | 0 | 58% | 3 | 44 |
| 1/6/2012 | 1,277 | 2% | 5 | 64% | 6 | 46 |

BSI vs SPX

July 2008 to Present



BSI for US Equities – Summary

The BSI forged ahead 6 notches this past week to close at 64%, and now sits substantially above where it stood in late Oct. when the SPX was last near its current level. Meanwhile, the SPX completed its first four trading days of Jan. with a near 2% gain, and now sits about 6% below its 52-week high and 1% above its 200-day moving average.

There is a noticeable multi-week positive divergence taking place between the BSI and SPX. One way or another, this divergence will disappear in the coming weeks and/or months. Previously, such multi-week divergences have led to sizeable moves in the SPX, either up or down. In my experience, a multi-week divergence between the BSI and SPX will be closed with the SPX reverting to the BSI rather than the other way around, a bit more often than not. Only time will tell if this time will be different.

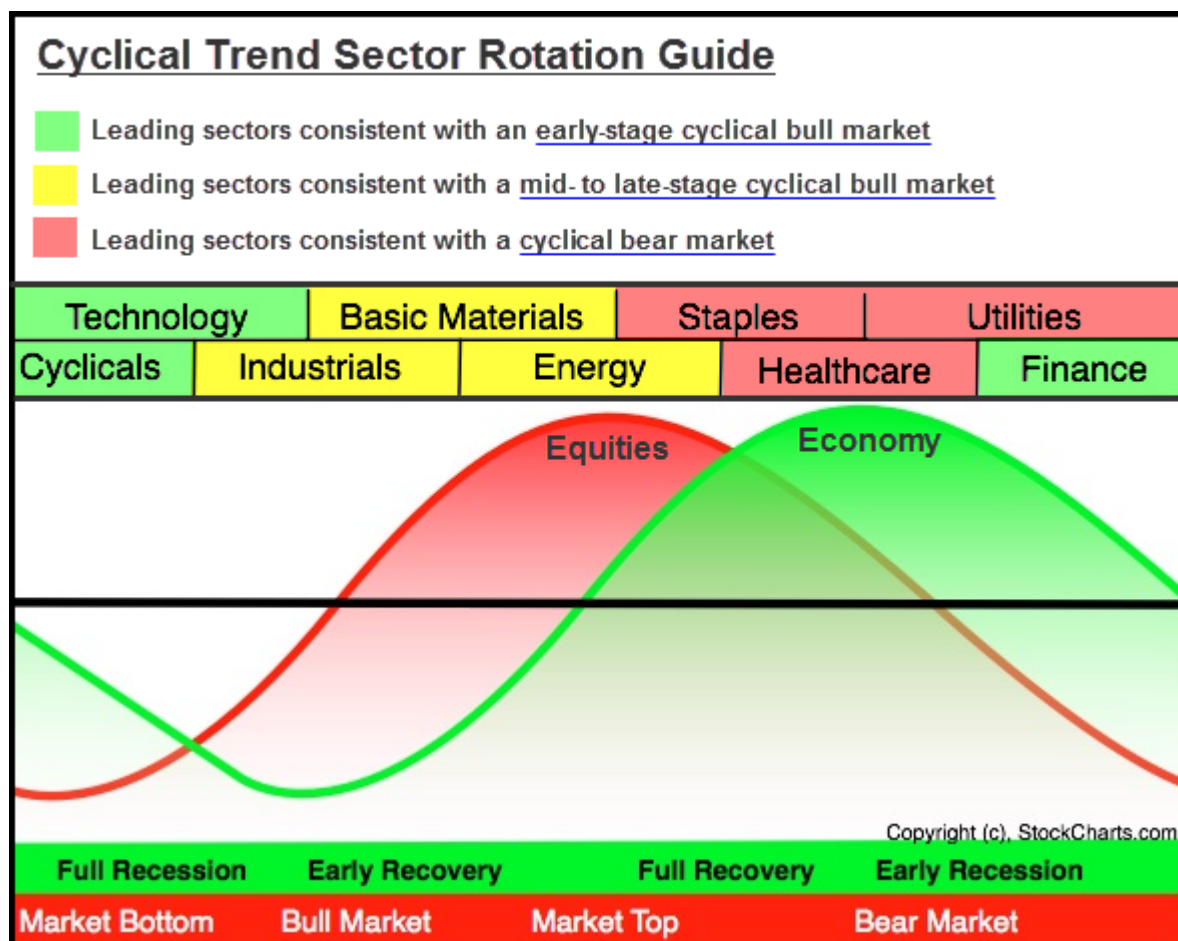
This weekend, the “BSI Stretch from Mean” is once again flashing purple, which suggests that bullish sentiment may be rising too quickly and that a one or more week pullback would be healthy. However, I wouldn’t put much stock in this signal when the SPX is not that stretched above its mean (note that “SPX Stretch from Mean” is currently at 5). Having said that, the SPX is now on the 28th day of its buying stampede since late Nov. and [implied volatility hit a 5-month low on Friday](#), as an uncertain earnings season starts to get into gear, which historically has limited SPX gains for the following few weeks if not led to a noticeable dip/breather.

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 at the Neutral level** – so, there are apparently an average number of potential buyers of equities on the sidelines.
- Within the context of a ***cyclical bear market***, the current level of the BSI suggests **bullish sentiment is at the Extreme level** – so, there are apparently extremely few potential buyers of equities on the sidelines.

Cyclical Trend Sector Rotation Monitoring

The following cyclical trend sector rotation guide is my personal adaptation of a [chart made available by John Murphy of Stockcharts.com](#):



The top five performing sectors of the SPX over the past 3 months are shown below:

| Sector | Performance | |
|--|-------------|---------|
| | 1 Month | 3 Month |
| Energy 1 Industry | -0.29% | +14.44% |
| Industrials 3 Industries | +2.03% | +14.33% |
| Materials 1 Industry | +0.81% | +11.75% |
| Consumer Discretionary 5 Industries | +1.75% | +10.09% |
| Financials 4 Industries | +2.52% | +10.09% |

Sector rotation patterns currently indicate that US equities are in a mid- to late-stage cyclical bull market. Whether they actually are is another matter entirely, but sector rotation patterns may be worth considering in one's determination of the cyclical trend.

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 before making any trading or investment decisions and please remember that the publisher of this report bears no responsibility for your trading and investment decisions.*