

Bullish Sentiment Index (BSI) for US Equities

Rough BSI Interpretation Guidelines

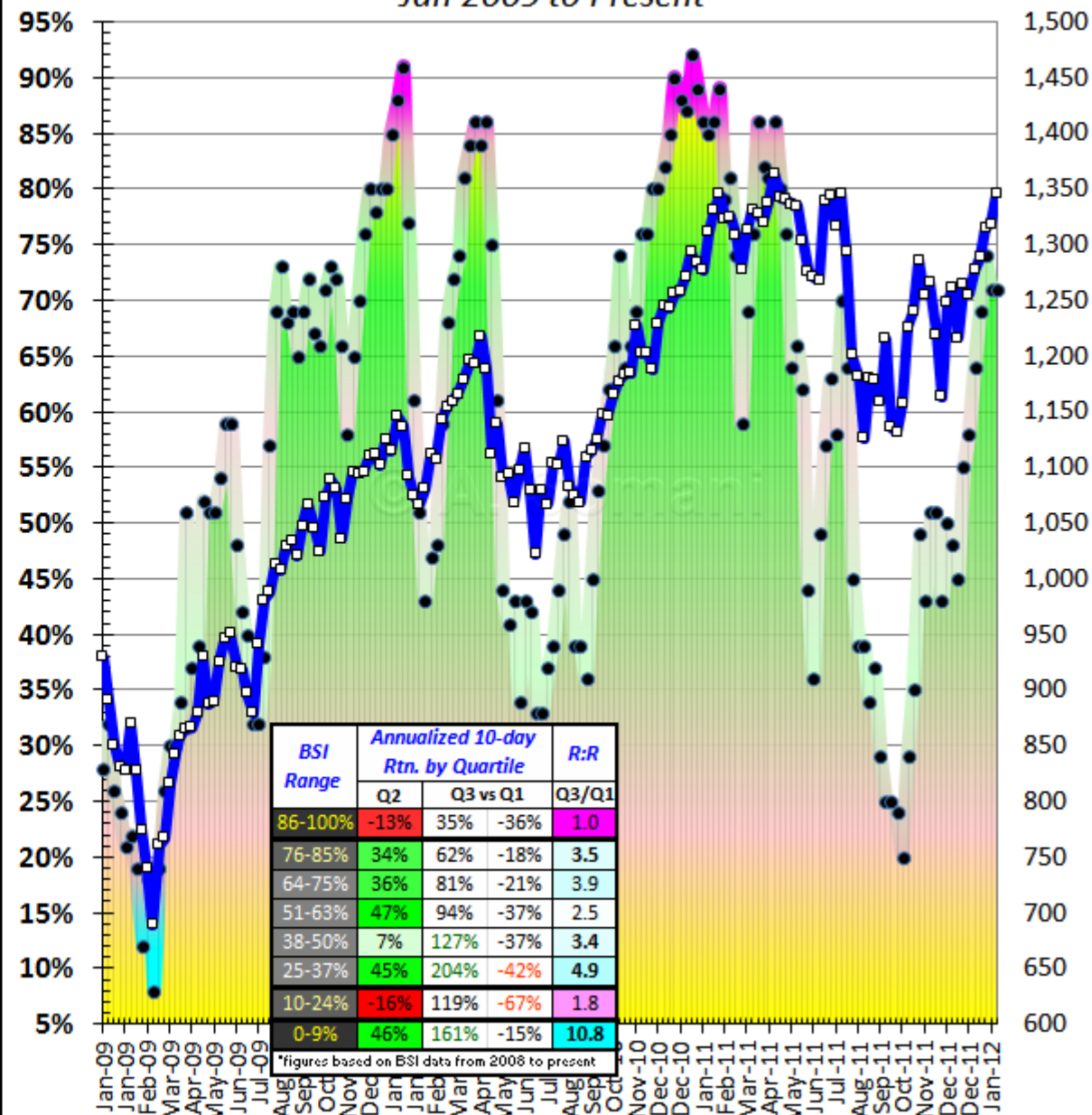
Cyclical Bull Market		Cyclical Bear Market	
Extreme	86-100%	0-9%	Minimal
Extended	76-85%	10-24%	Shallow
Neutral	51-75%	25-37%	Neutral
Shallow	38-50%	38-50%	Extended
Minimal	25-37%	51-63%	Extreme

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)
10/21/2011	1,240	1%	7	35%	6	-46
10/28/2011	1,286	4%	21	49%	14	-30
11/4/2011	1,255	-2%	23	43%	-6	5
11/11/2011	1,267	1%	14	51%	8	9
11/18/2011	1,220	-4%	-8	51%	0	21
11/25/2011	1,163	-5%	-28	43%	-8	19
12/2/2011	1,249	7%	-24	50%	7	17
12/9/2011	1,261	1%	-14	48%	-2	32
12/16/2011	1,216	-4%	-17	45%	-3	32
12/23/2011	1,264	4%	-4	55%	10	34
12/30/2011	1,255	-1%	-1	58%	3	44
1/6/2012	1,277	2%	12	64%	6	46
1/13/2012	1,288	1%	22	69%	5	44
1/20/2012	1,315	2%	36	74%	5	38
1/27/2012	1,318	0%	40	71%	-3	38
2/3/2012	1,345	2%	44	71%	0	30

BSI vs SPX

Jan 2009 to Present

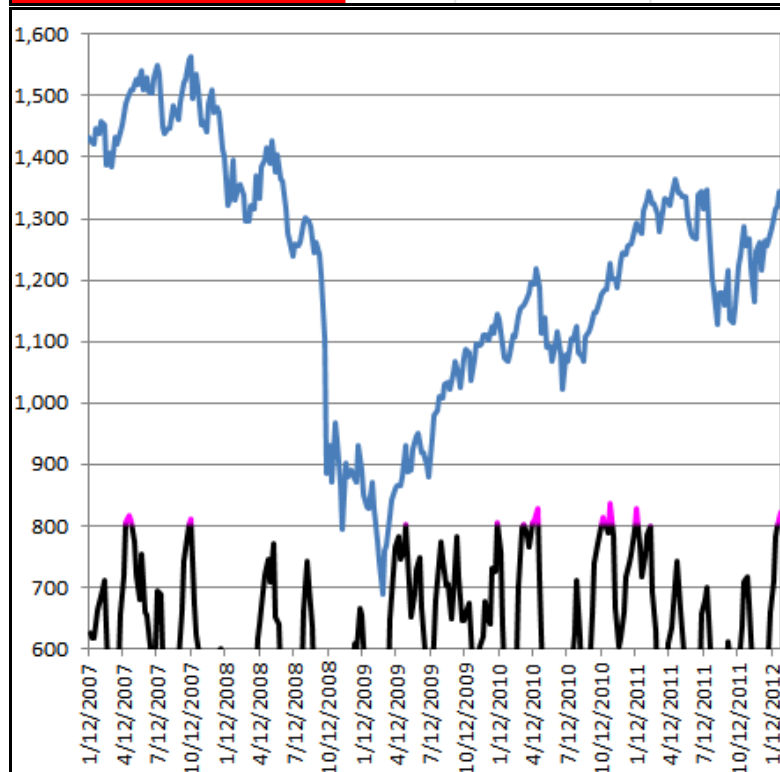


BSI for US Equities – Summary

The BSI stayed flat this past week to close at 71%. On the other hand, the SPX ended the week up about 2%, and now sits about 3% below its 52-week high and about 5% above its 200-day moving average.

This weekend, the “SPX Stretch from Mean” indicator is flashing purple. When it flashes purple, it indicates that the reward-to-risk of being long exactly the week following the flashing is historically poor. Here are some stats on how the SPX has fared the week following a purple flashing “SPX Stretch from Mean”, only going back to the beginning of 2007 (15 occurrences) due to time constraints (please note that there were no purple flashes in 2008):

If SPX Stretch from Mean Flashes Purple (2007 to Present)			
Following Wk, Sorted by Rtn.		Mean Return	-0.67%
2.05%		Median Return	-0.04%
0.93%		Quartile 3 Return	0.54%
0.61%		Quartile 1 Return	-1.43%
0.55%		Q3 / Q1	0.38
0.53%			
0.31%		1% Moves	1 Up, 4 Down
0.12%			
-0.04%			
-0.16%			
-0.72%			
-0.81%			
-2.05%			
-2.46%			
-4.26%			
-4.59%			



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

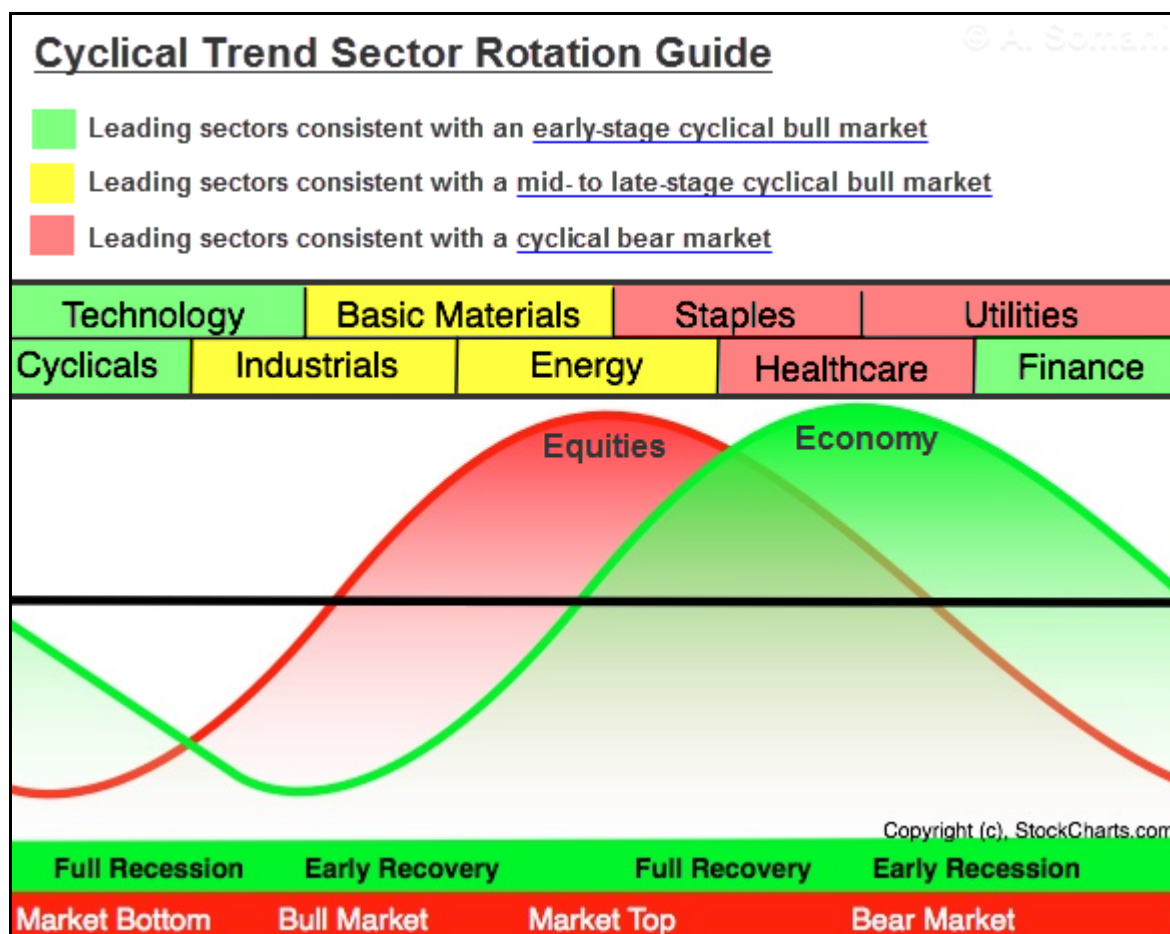
- Within the context of a ***cyclical bull market***, the current level of the BSI suggests **bullish sentiment is Neutral** – so, there are apparently an average number of potential buyers of equities on the sidelines.

At the end of each calendar month, it will be evaluated for the purpose of this report (based on reader feedback or anticipated reader feedback) whether it is fitting to comment on the BSI just within the context of a cyclical bull market, just within the context of a cyclical bear market, or within both the context of a cyclical bull market and the context of a cyclical bear market.

Cautionary Note on BSI 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.

Additional Segment: 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, color-coded according to the above guide:

Sector	Performance	
	1 Month	3 Month ▾
Industrials 3 Industries	+8.95%	+11.13%
Materials 1 Industry	+11.42%	+10.37%
Financials 4 Industries	+9.68%	+9.63%
Health Care 2 Industries	+4.57%	+9.50%
Consumer Discretionary 5 Industries	+8.39%	+8.56%

Sector rotation patterns currently appear to be consistent with US equities being 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 of US equities.

Additional Segment: Magazine Cover Confirmation Indicator

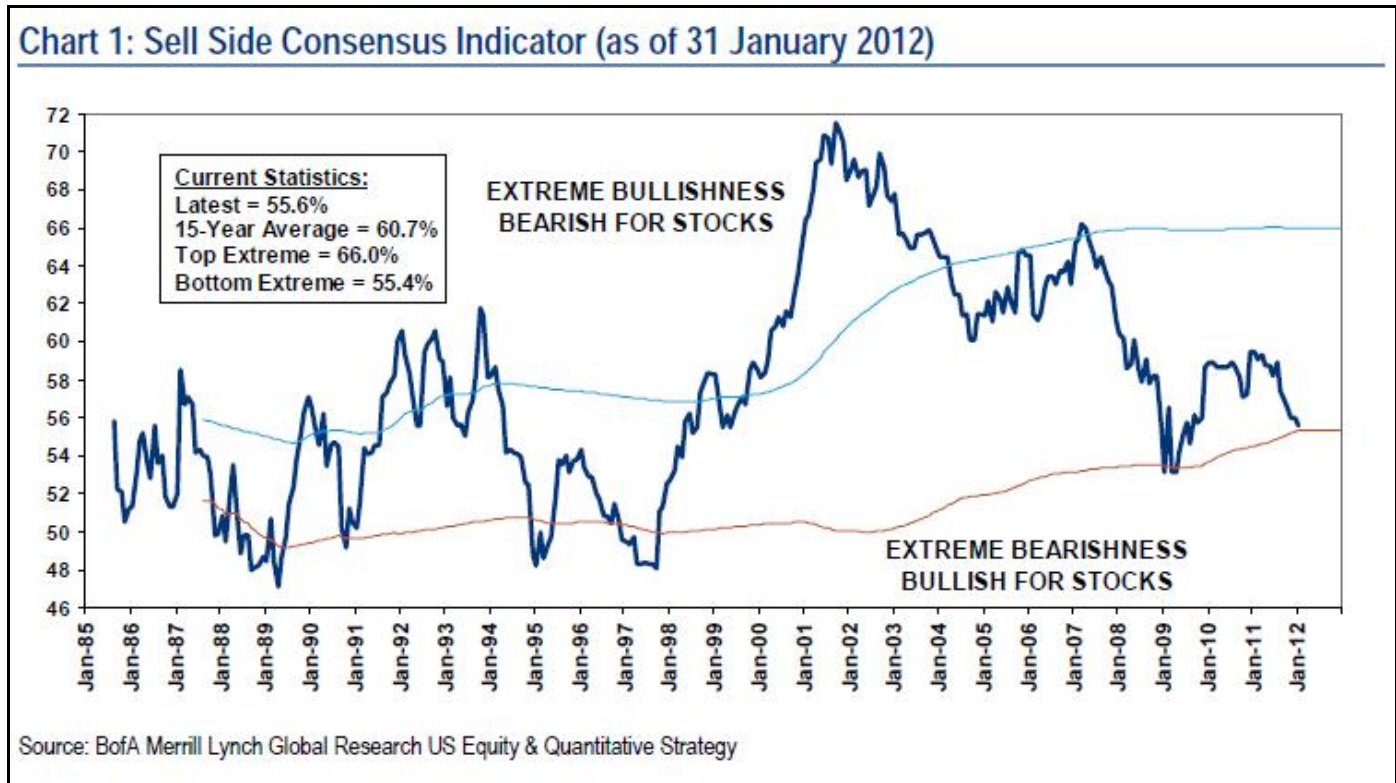
Far more often than not, popular magazine covers will be meaningless for the average market participant. But, on occasion, one or more of these covers will **confirm** unsustainably bullish or bearish sentiment toward one or more publicly-traded asset classes or securities, and thereby mark a turning point or near turning point in one or more publicly-traded asset classes or securities, depending on the nature of the cover(s) in question. As financial commentator Barry Ritholtz [has noted](#), "The magazine cover contrary indicator works when it reflects a fairly long lasting, well understood concept that is reaching a climax."

I only see one magazine cover this weekend that is worth commenting on, based on the ones I review each weekend (see list near the end of this segment):



This cover doesn't relate to any particular publicly traded asset class or security. But, to me, it sends a picture of a public that continues to look angrily at Wall Street. There seem to be a myriad of reasons for the anger – those perhaps having a direct and negative role in the financial crisis not being brought to justice or adequately brought to justice, the uncovering of certain firms betting against their clients, insider trading scandals, excessive fees being charged to clients relative to the performance provided, etc.

As an aside, many sell-side analysts, advisors, portfolio strategists, and so forth on Wall Street apparently have not been 'onboard' the latest rally – much to the disappointment of their clients, undoubtedly. Take a look at the following chart (published at the [Abnormal Returns blog](#) on Thursday), for example, and the link underneath it:



[Link](#)

Much of the buy-side does not appear to be doing much better. According to a [recent article](#): “After Wednesday's close the ISI Hedge Fund Survey...indicated that net hedge fund exposure moved down to 44.3% (while gross exposure dipped to 49.7%). This is close to the lowest level of long exposure in four years and equivalent to the low exposure at the generational low in March 2009.”

Here are links that will allow one to (at least) view a thumbnail of the covers of (some of, if not most of) those weekly magazines that have enough readership and relevance for a market participant to consider monitoring each week, ordered in a descending fashion based on recent US public circulation numbers (Time Magazine is by far the most popular):

1. [Time Magazine](#)
2. [Newsweek](#)
3. [Businessweek](#)
4. [The Economist](#)

Disclaimer

The contents of this report are shared purely for entertainment purposes; do not constitute a recommendation by the author(s) of this report of any particular security, portfolio of securities, transaction, or investment strategy; and should not be used as a basis for trading or investment decisions without consulting a registered investment advisor. Information presented is believed to be accurate but cannot be guaranteed to be accurate. Please consult a registered investment advisor before making any trading or investment decisions and please remember that the author(s) of this report bear(s) no responsibility or liability for your trading and investment decisions.