

## Bullish Sentiment Index (BSI) for US Equities

### Rough BSI Interpretation Guidelines

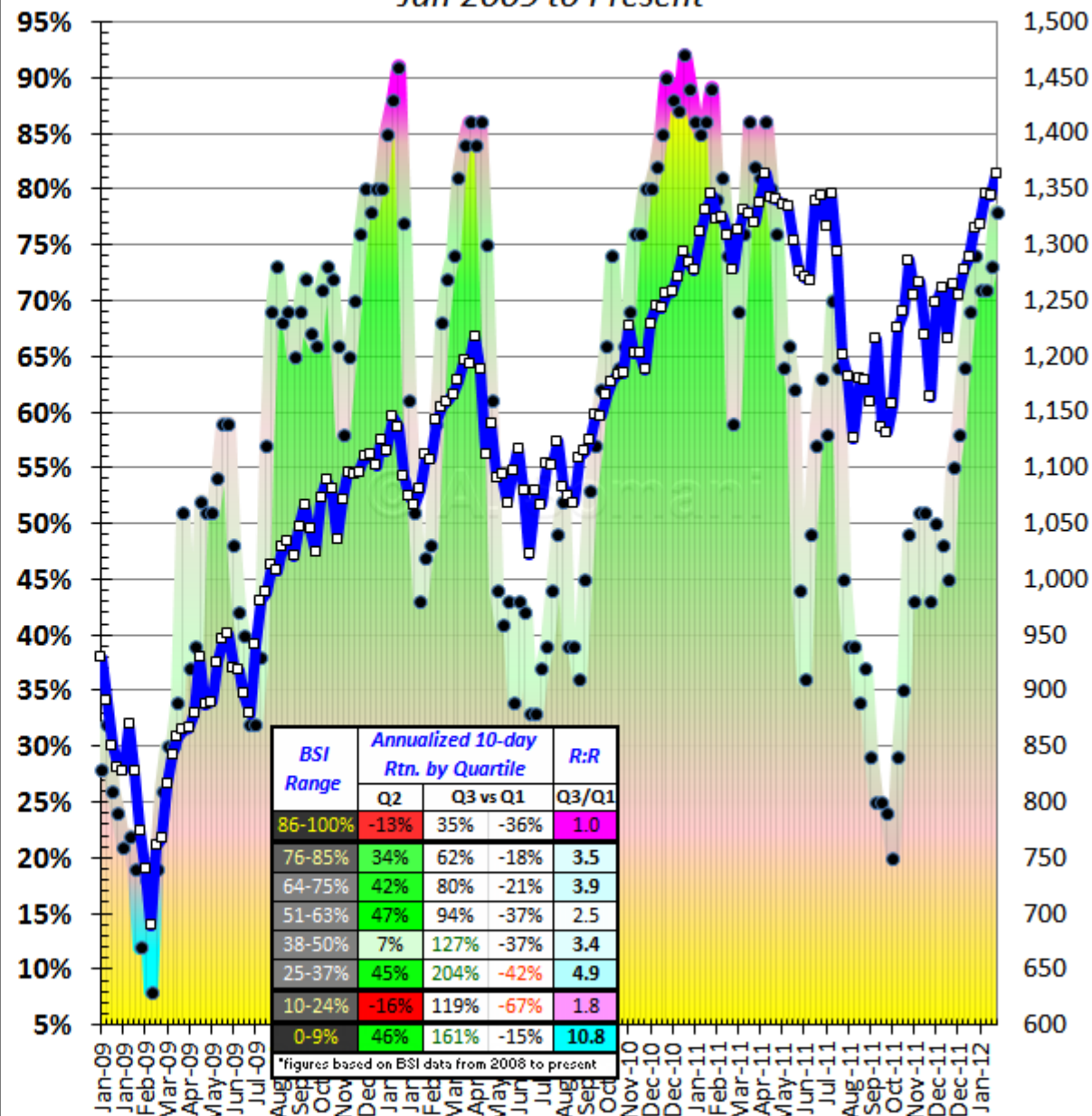
Cyclical Bull Market		Cyclical Bear Market	
Extreme	86-100%	0-9%	Minimal
Extended	76-85%	10-24%	Shallow
Neutral	51-75%	25-37%	Neutral
Shallow	38-50%	38-50%	Extended
Minimal	25-37%	51-63%	Extreme

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 zenith), 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)
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
2/10/2012	1,344	0%	41	73%	2	29
2/17/2012	1,364	2%	42	78%	5	42

## BSI vs SPX

Jan 2009 to Present



## **BSI for US Equities – Summary**

The BSI moved up 5 notches this week to close at 78%. Meanwhile, the SPX defied short-term overbought conditions and managed to close higher about 2%. The SPX now sits very near its 52-week high and about 8% above its 200-day moving average.

*This weekend, the “SPX Stretch from Mean” indicator is flashing purple once again. 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 due to time constraints (and it is worth noting that there were no occurrences in 2008):*

Occurrences	17
Mean Return	-0.56%
Median Return	-0.04%
Quartile 3 (Q3) Return	0.55%
Quartile 1 (Q1) Return	-1.00%
Abs(Q3 / Q1)	0.55
Max Return	2.05%
Min Return	-4.59%
1%+ Moves	2 Up, 4 Down

*This past week was only the second 1%+ move to occur after a purple flashing SPX Stretch from Mean out of the 17 occurrences mentioned above. Interestingly, since 2007, there have only been two other weeks ended where the SPX Stretch from Mean flashed purple three weeks in a row: May 4, 2007 and Apr. 23, 2010. The former was just a few percentage points from the Oct. 2007 cyclical bull market top, and the latter was followed within several days by the infamous Flash Crash. Are these bearish omens for the coming weeks? Well, two occurrences over a period of just over 5 years is nothing to write home about – so, not really or not necessarily. It’s worth noting, also, that bullish sentiment was Extreme shortly before the Flash Crash (on top of the SPX being significantly further stretched above its 200-day moving average than currently).*

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 Extended** – so, there are apparently fewer than average potential buyers of equities on the sidelines.

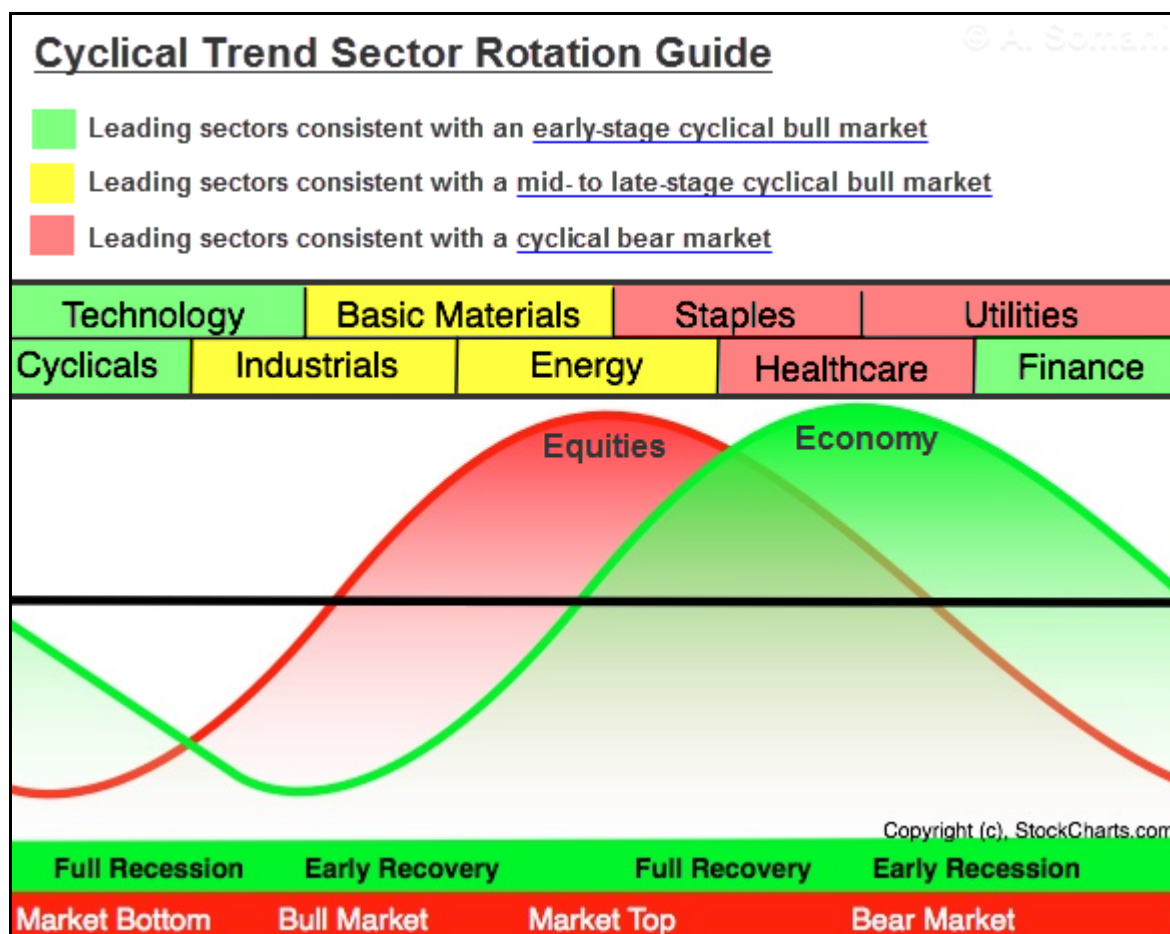
At the end of each calendar month, it will be evaluated for the purpose of this report (based on reader feedback or anticipated reader feedback) whether it is fitting to comment on the BSI

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
Financials 4 Industries	+7.34%	+18.13%
Industrials 3 Industries	+5.11%	+15.02%
Materials 1 Industry	+4.41%	+15.02%
Consumer Discretionary 5 Industries	+7.18%	+14.63%
Information Technology 3 Industries	+10.35%	+13.64%

Sector rotation may be one tool (among a number of others) for a person to consider use of in determining the cyclical trend of US equities. What does sector rotation currently suggest about the cyclical trend of US equities? Well, this weekend's sector rotation pattern appears to be consistent with US equities being in an early stage cyclical bull market.

*For what it's worth, I continue to view US equities as being in a mid- to late-stage cyclical bull market.*

### **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 do not see any magazine covers for me to discuss this weekend out of the ones that I normally review (see list at the end of this segment).*

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](#)

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