# Bullish Sentiment Index (BSI) for US Equities

## Rough BSI Interpretation Guidelines

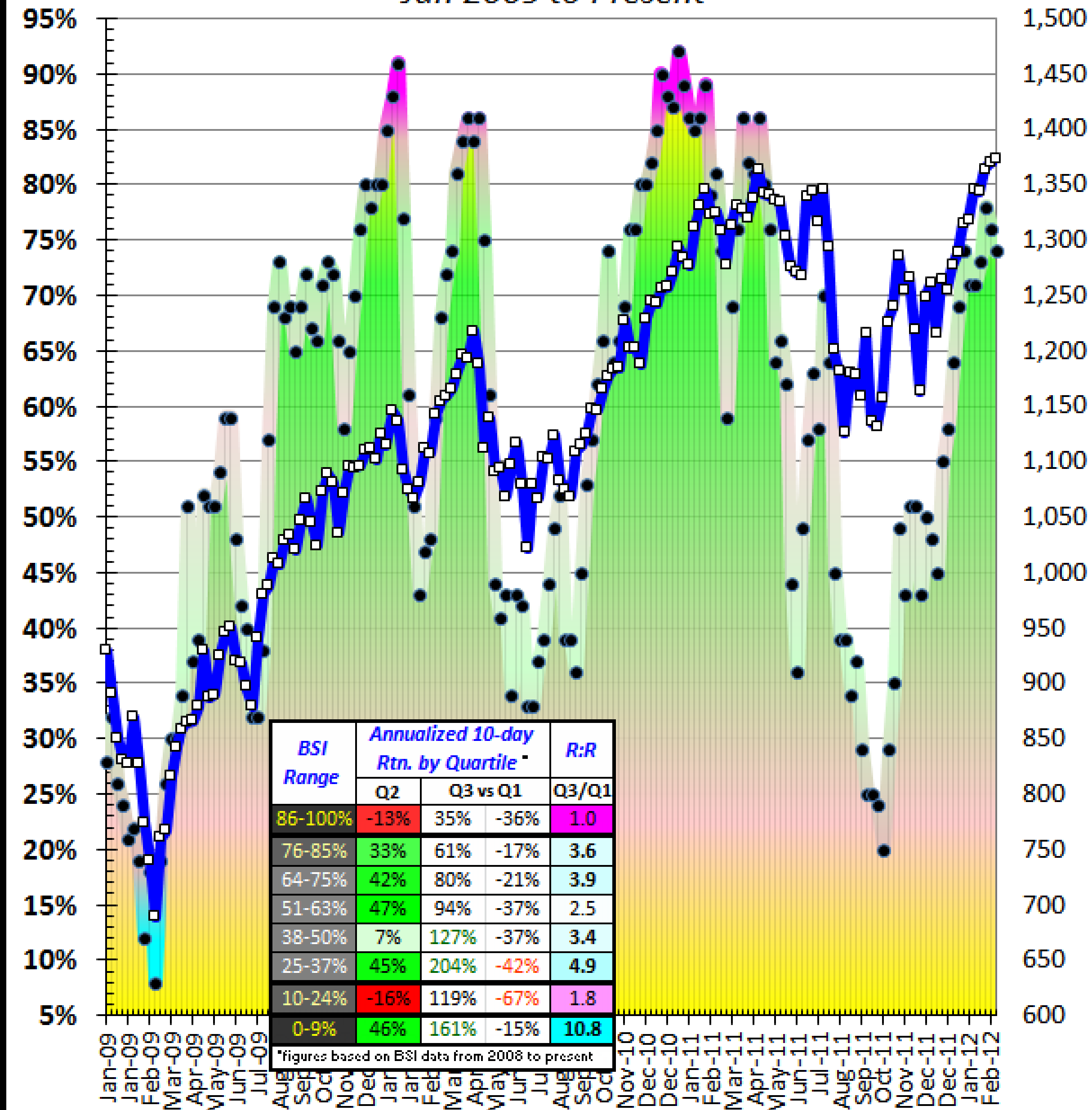
| Cyclical Bull Market | | Cyclical Bear Market | |
|---|---|---|---|
| Extreme | 86-100% | 0-9% | Minimal |
| Extended | 76-85% | 10-24% | Shallow |
| Neutral | 51-75% | 25-37% | Neutral |
| Shallow | 38-50% | 38-50% | Extended |
| Minimal | 25-37% | 51-63% | Extreme |

*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) |
|---|---|---|---|---|---|---|
| 11/18/2011 | 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 |
| 2/24/2012 | 1,369 | 0% | 37 | 76% | -2 | 36 |
| 3/2/2012 | 1,373 | 0% | 37 | 74% | -2 | 35 |

## BSI vs SPX

*Jan 2009 to Present*




| BSI Range | Annualized 10-day Rtn. by Quartile* | | | R:R |
|---|---|---|---|---|
| | Q2 | Q3 vs Q1 | | Q3/Q1 |
| 86-100% | -13% | 35% | -36% | 1.0 |
| 76-85% | 33% | 61% | -17% | 3.6 |
| 64-75% | 42% | 80% | -21% | 3.9 |
| 51-63% | 47% | 94% | -37% | 2.5 |
| 38-50% | 7% | 127% | -37% | 3.4 |
| 25-37% | 45% | 204% | -42% | 4.9 |
| 10-24% | -16% | 119% | -67% | 1.8 |
| 0-9% | 46% | 161% | -15% | 10.8 |

*figures based on BSI data from 2008 to present

## <u>BSI for US Equities – Summary</u>

The BSI moved down 2 notches this week to close at 74%, marking its second weekly decline. Meanwhile, the SPX closed very near to where it closed the previous week. The SPX now sits within 1% of a 52-week closing high and about 9% above its 200-day moving average.

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

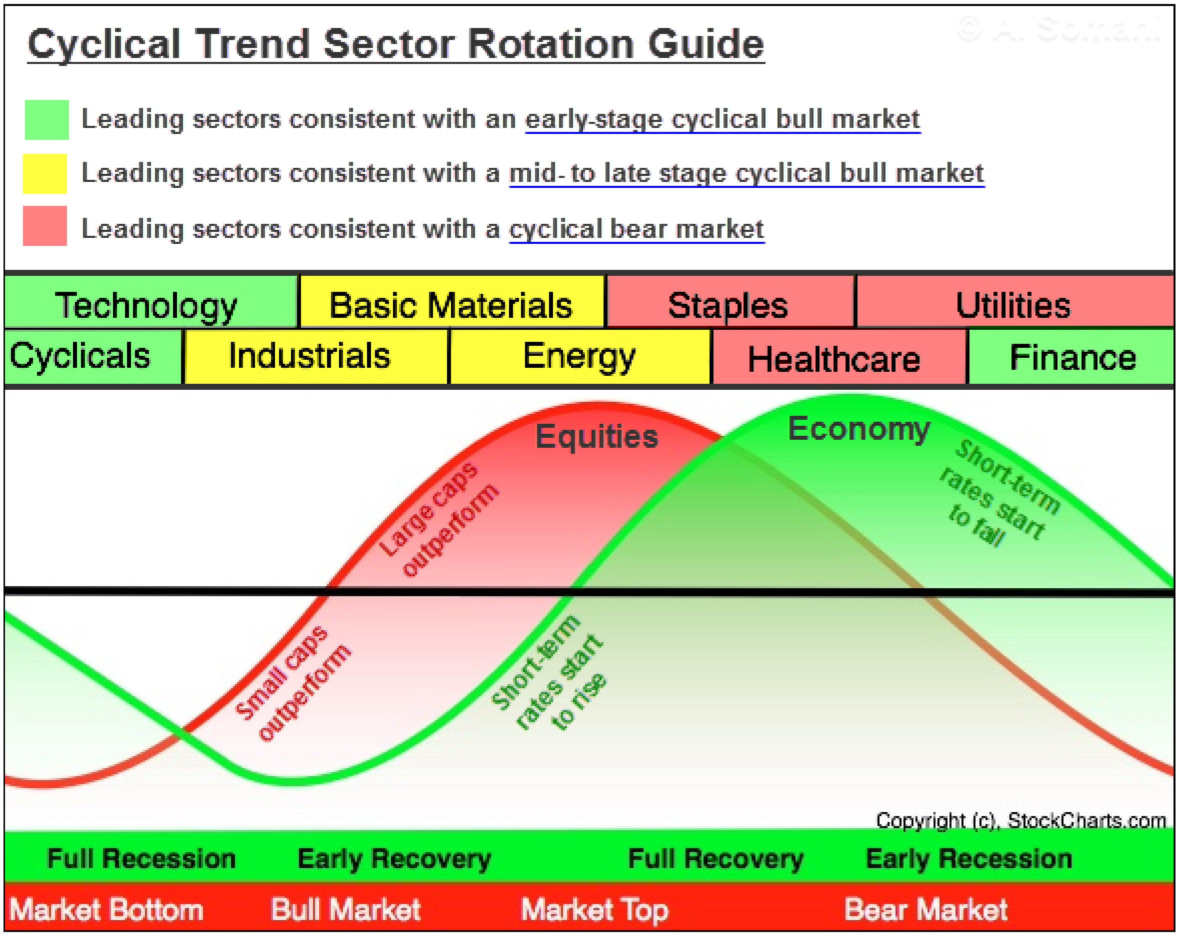
- Within the context of a ***cyclical bull market***, the current level of the BSI suggests **bullish sentiment is Neutral** – so, there is apparently <u>an average amount of "gas in the tank" for a market rally</u>.

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 a cyclical bear market, 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 interpretation of 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 highlighted below, color-coded according to the above guide:

| Sector | Performance | | |
|---|---|---|---|
| | 1 Month | 3 Month | YTD |
| Financials<br>4 Industries | +2.51% | +14.26% | +12.34% |
| Information Technology<br>3 Industries | +5.51% | +13.81% | +15.53% |
| Consumer Discretionary<br>5 Industries | +5.01% | +12.48% | +12.49% |
| Materials<br>1 Industry | -0.66% | +10.77% | +12.19% |
| Industrials<br>3 Industries | +0.66% | +10.64% | +9.66% |

Sector rotation may be one tool for a person to consider use of (among a number of others) in determining the cyclical trend of US equities. Based on the color-coded table shown above, sector rotation currently appears to be consistent with US equities being in an early stage cyclical bull market.

*This weekend's sector rotation pattern is about as impressive as one could ask for. It's exactly the type of sector rotation pattern you would want to see in an early stage cyclical bull market.*

*Having said that, as detailed in earlier reports, I continue to view US equities as being in a mid- to late stage cyclical bull market – as, in my view, the market breadth signatures of a cyclical bull market top were not exhibited at the time of or in the several weeks prior to the Apr. 2011 top (and nor were they exhibited at the time of or in the several weeks prior to the Apr. 2010 top).*

*Let me add that two gentlemen who are more knowledgeable on the status of the current cyclical trend of US equities than all but perhaps a handful of people, in my humble opinion, are James (Jim) Stack of Investech Research and Wayne Whaley, CTA, of Witter Lester. Thanks to their (separate) dedicated research on US equity market movements over many years, both of them have acquired a great grasp of how cyclical bull markets historically start and end as well as how cyclical bear markets historically start and end. I recall both of them staying bullish on the cyclical trend of US equities through the 2010 and 2011 double-digit drops. Both of them also view the current cyclical trend of US equities as being that of a mid- to late stage cyclical bull market, based on the last comments I have from them on this subject.*

## 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 don't see any magazine covers for me to discuss this weekend from the list of magazines at the bottom 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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