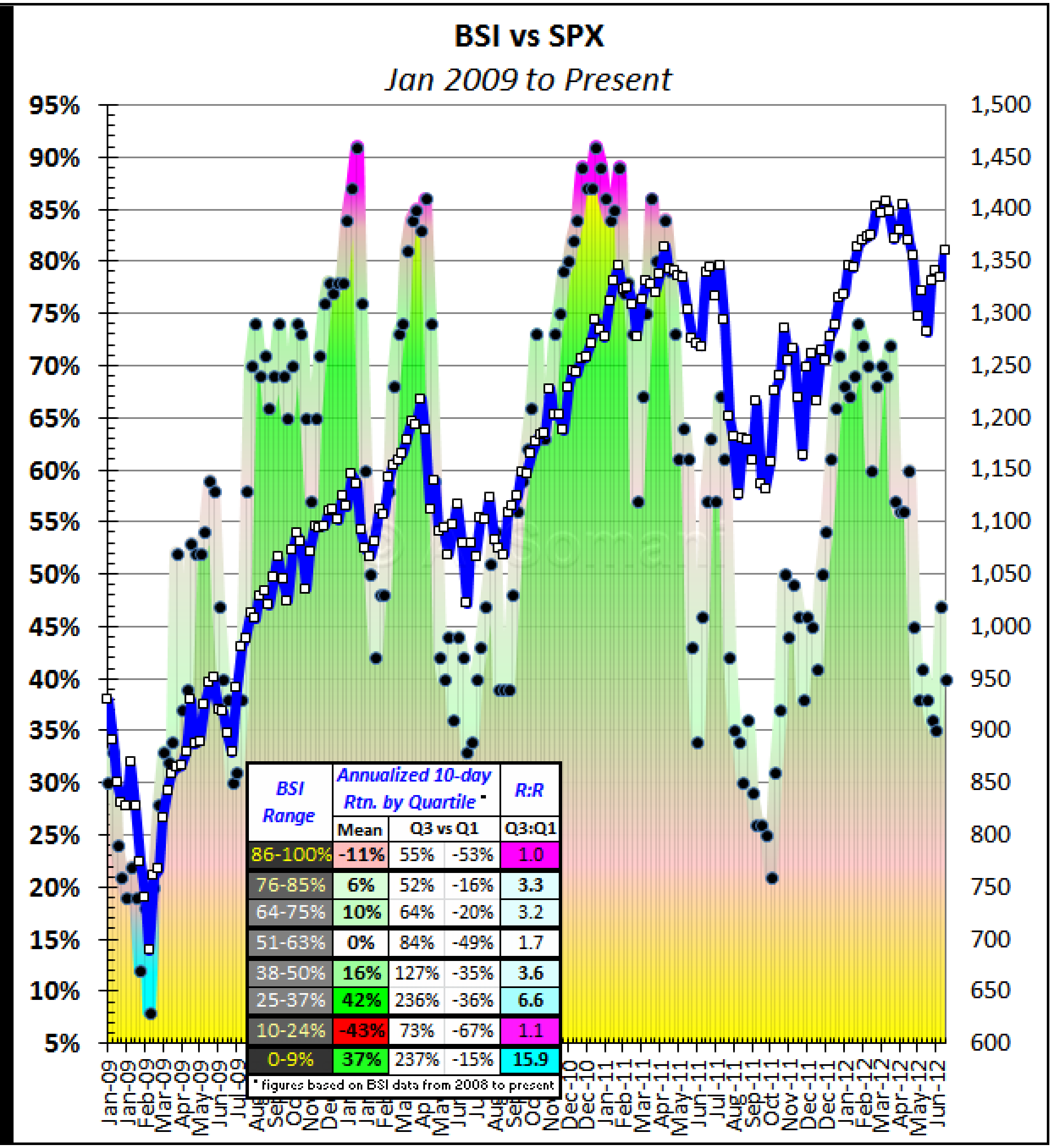
Bullish Sentiment Index (BSI) for US Equities

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.

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*

Date	Approx. SPX (SPY*10)	%Ch.	*SPX Stretch from Mean (-50 to 50)*	BSI	Ch.	*BSI Stretch from Mean (-50 to 50)*
3/16/2012	1,403	2%	32	68%	8	24
3/23/2012	1,397	0%	34	70%	2	21
3/30/2012	1,408	1%	28	69%	-1	14
4/5/2012	1,398	-1%	24	72%	3	6
4/13/2012	1,371	-2%	-11	57%	-15	-15
4/20/2012	1,380	1%	-26	56%	-1	-29
4/27/2012	1,404	2%	-21	56%	0	-26
5/4/2012	1,370	-2%	-26	60%	4	-23
5/11/2012	1,356	-1%	-29	45%	-15	-33
5/18/2012	1,297	-4%	-41	38%	-7	**-45**
5/25/2012	1,321	2%	-40	41%	3	**-45**
6/1/2012	1,282	-3%	-45	38%	-3	-39
6/8/2012	1,331	4%	-33	36%	-2	-39
6/15/2012	1,341	1%	-15	35%	-1	**-46**
6/22/2012	1,335	-1%	0	47%	12	-40
6/29/2012	1,361	2%	12	40%	-7	-38



BSI Range	Annualized 10-day Rtn. by Quartile *			R:R
	Mean	Q3 vs Q1		Q3:Q1
86-100%	-11%	55%	-53%	1.0
76-85%	6%	52%	-16%	3.3
64-75%	10%	64%	-20%	3.2
51-63%	0%	84%	-49%	1.7
38-50%	16%	127%	-35%	3.6
25-37%	42%	236%	-36%	6.6
10-24%	-43%	73%	-67%	1.1
0-9%	37%	237%	-15%	15.9

* figures based on BSI data from 2008 to present

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

John Marks Templeton (d. 2008)

BSI Summary

The BSI fell 7 notches this past week to close at **40%**. On the other hand, the SPX closed higher by about 2%.

The SPX currently sits about 4% below its 52-week closing high and about 5% above its 200-day moving average.

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

- Within the context of a ***cyclical bull market***, the current level of the BSI suggests **bullish sentiment is Shallow** – so, there is apparently a large amount of "gas in the tank" for a multi-week rally.

Understanding the BSI

The BSI may be best used as a blunt and continuous (as opposed to discrete) indication as to the general mood of traders and investors toward the US equity market. With regard to the BSI's associated indicators ("SPX Stretch from Mean" and "BSI Stretch from Mean", respectively), if their associated cells are colored blue (purple) this weekend, then it indicates an unusually oversold (overbought) market and/or unusually rapid drop (rise) in bullish sentiment. Overall, the BSI and its associated indicators are designed with the aim of helping a trader or investor to gauge when to increase or hedge/decrease exposure to US equities so as to help manage risk effectively and thereby maximize risk-adjusted returns. However, the BSI and its associated indicators represent merely one suite of tools a trader or investor can use to analyze the US equity market with, 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 the US equity market with.

Knowledge of the cyclical trend of US equities is an important element of interpreting the BSI and its associated indicators accurately. For instance, in a cyclical bull (bear) market, it is not unusual for the BSI and its associated indicators to remain elevated (depressed) for extended periods without US equities declining (rising) in any significant way. 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.

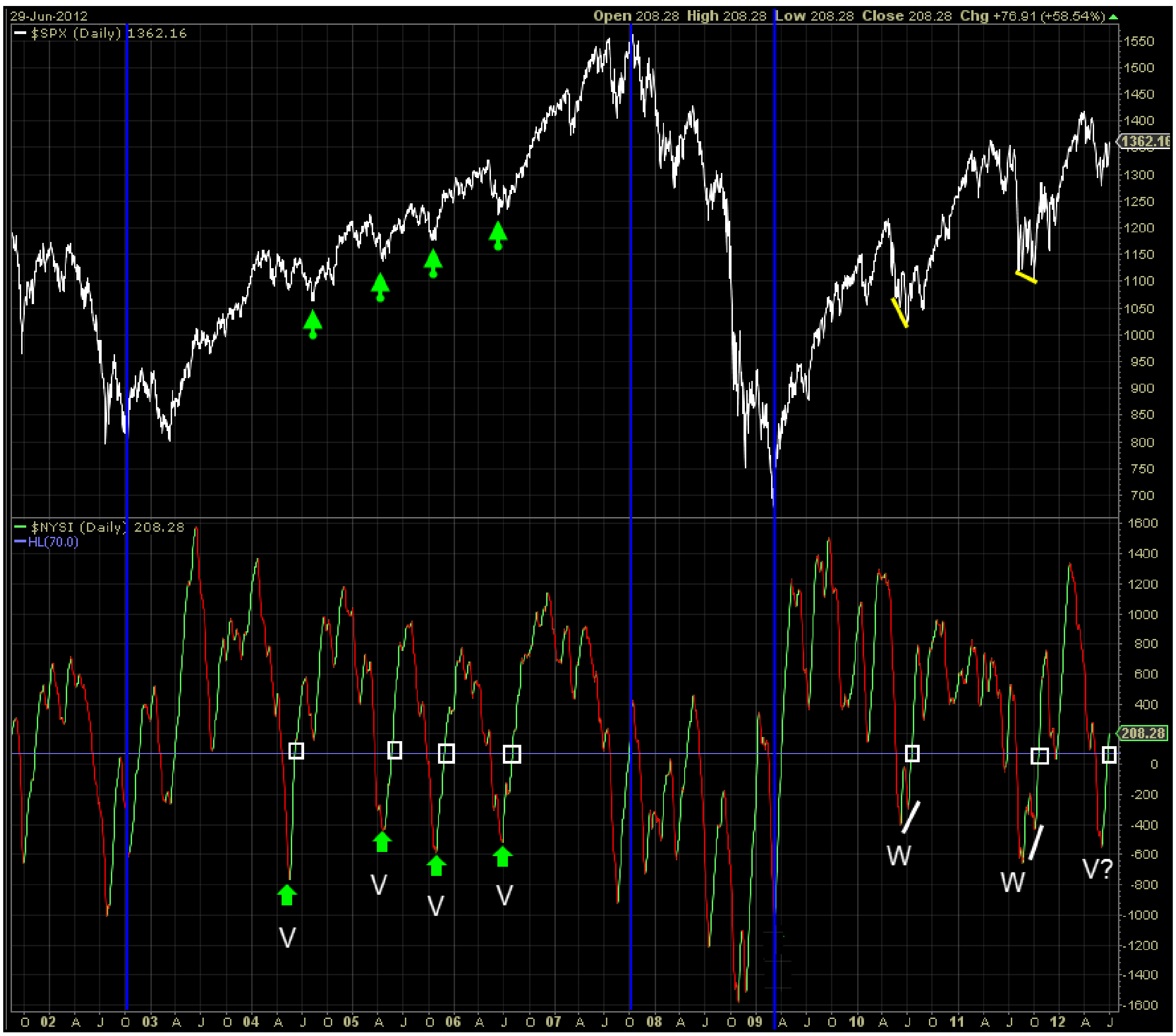
"*I invest only when I hear the sound of cannon fire and see blood running in the streets. I sell when I hear the sound of violins.****"*** ***Nathan Mayer Rothschild (d. 1836)***

Just the Humble Opinion of the BSI Editor(s)

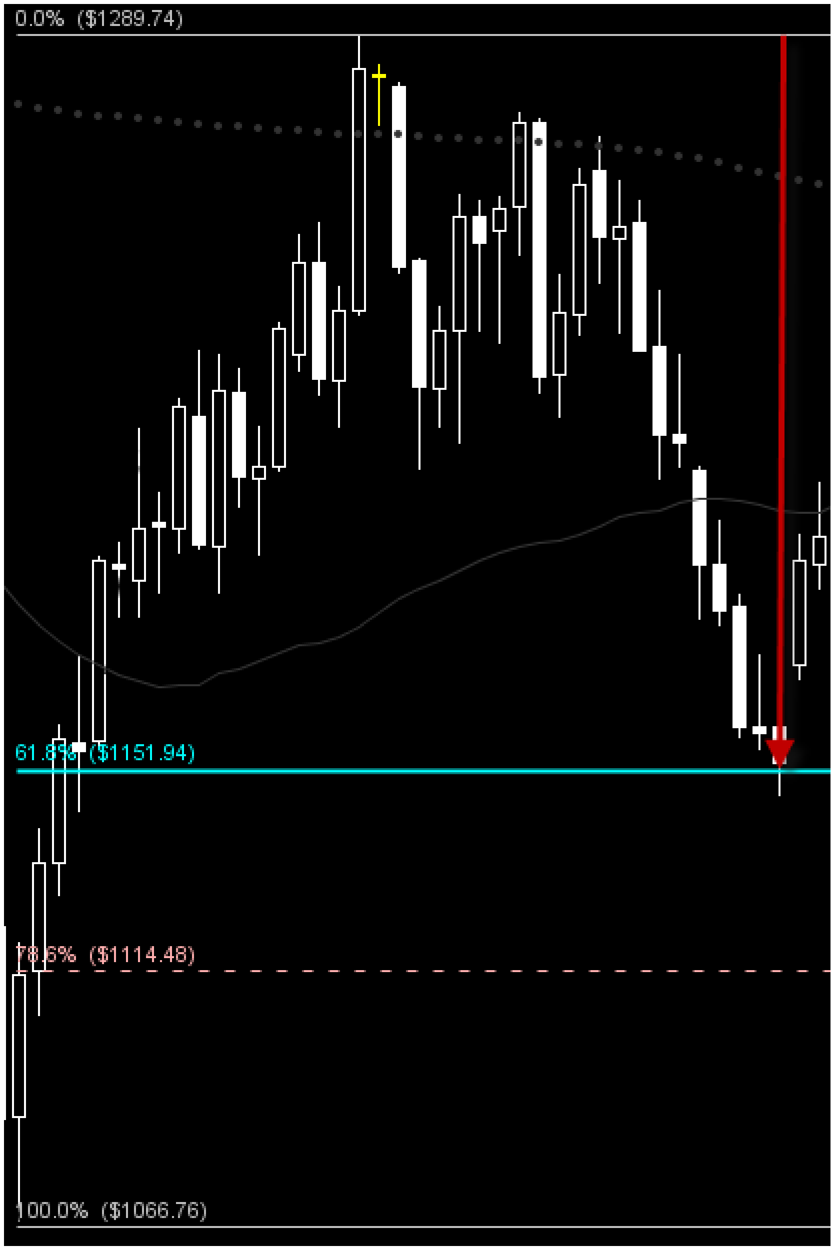
(Do not be surprised if this space is often empty, mainly due to time constraints).

I've been saying for a few weeks now that the June 4th low very likely should (essentially or practically) be the bottom of the summer swoon, though it may be temporarily broken by 0-3% on a re-test. Last weekend, I would've put the odds of a re-test of the June 4th low at 60-65%. But, a surprise occurred on Thursday evening from the EU Summit. And, if the SPX was going to re-test its June 4th low, the SPX should've had a significantly rougher week than it had this past week. These factors, accompanied by continued expansion in cumulative market breadth, mean to me that the odds of a re-test of the June 4th low have fallen significantly compared to last weekend – perhaps to 20-25%.

This summer swoon now appears to be much more mature than it appeared last weekend. With the NYSE McClellan Summation Index now back above 0, the Index appears to have made a clean V-bottom (similar to many V-bottoms in the 2002-07 cyclical bull market, as per the below chart). Thus, the bottoming process in the SPX appears to be mostly complete this weekend as opposed to simply significantly complete (as it appeared last weekend).



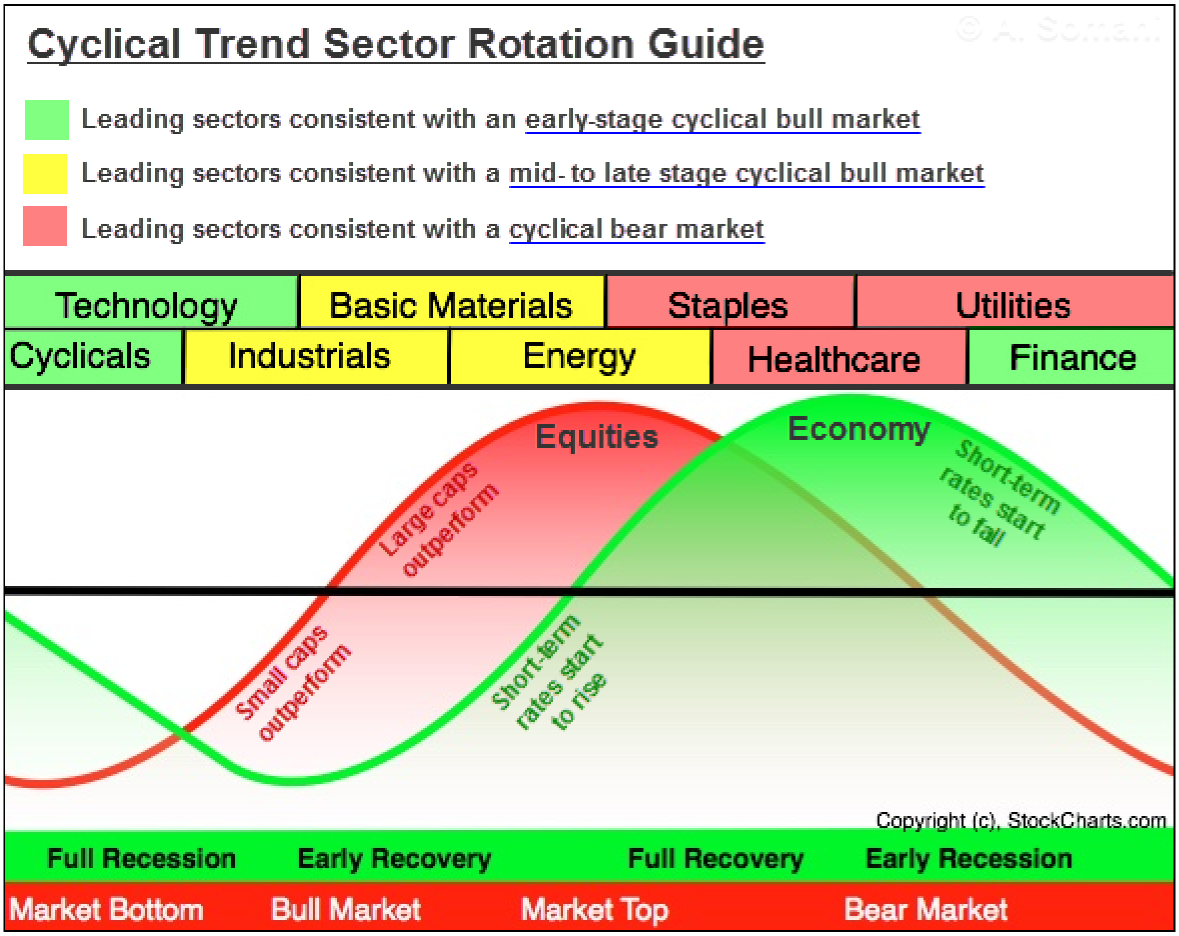
From here, before the SPX presumably makes new highs for the year later this summer or perhaps in the early fall in case of extended consolidation, investors should be thankful if there is a dip even as large as the one that occurred in Nov. 2011, following the rally off the Oct. 4th low, that looked like the below:



To recap, the SPX rallied significantly off the Oct. 4th low (the low of 2011) before performing a Fibonacci retracement of 62% that ended in late Nov. A comparable drop occurred in Aug. 2010 when 70% of the rally off the July 2010 low (the low of 2010) was retraced. At the end of both of these retracements were great secondary buying opportunities for those that ‘missed’ buying the yearly bottom. My thinking for now is that, more likely than not, there will be some sort of multi-week retracement of the rally off the June 4th low starting in the first half of this month, beginning from as much as 2-3% percent above Friday’s high.

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
Telecommunication Services 1 Industry	+5.49%	+11.22%	+13.37%
Utilities 1 Industry	+3.35%	+5.29%	+2.14%
Consumer Staples 3 Industries	+2.16%	+2.24%	+6.91%
Health Care 2 Industries	+4.55%	+2.20%	+11.74%
Consumer Discretionary 5 Industries	-0.71%	-3.87%	+11.61%

Sector rotation may be one tool for a person to consider use of (among a number of others) in helping to determine the cyclical trend of US equities. Based on the color-coded table shown above, <u>sector rotation currently appears to be consistent with US equities being in a mid- to late stage cyclical bull market</u>*.*

As detailed in earlier reports, 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 of these 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.”

Here are the magazine covers (out of the ones linked to at the bottom of this segment) that may be of interest to the average market participant this weekend considering the above:

None.

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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> *"Start keeping a diary. Write down every time you are convinced that the market is going up or down. After a few years, you will realize that your insights are worth nothing. Once you realize that, it becomes much easier to float on that ocean we call the market."* ***Meir Statman***