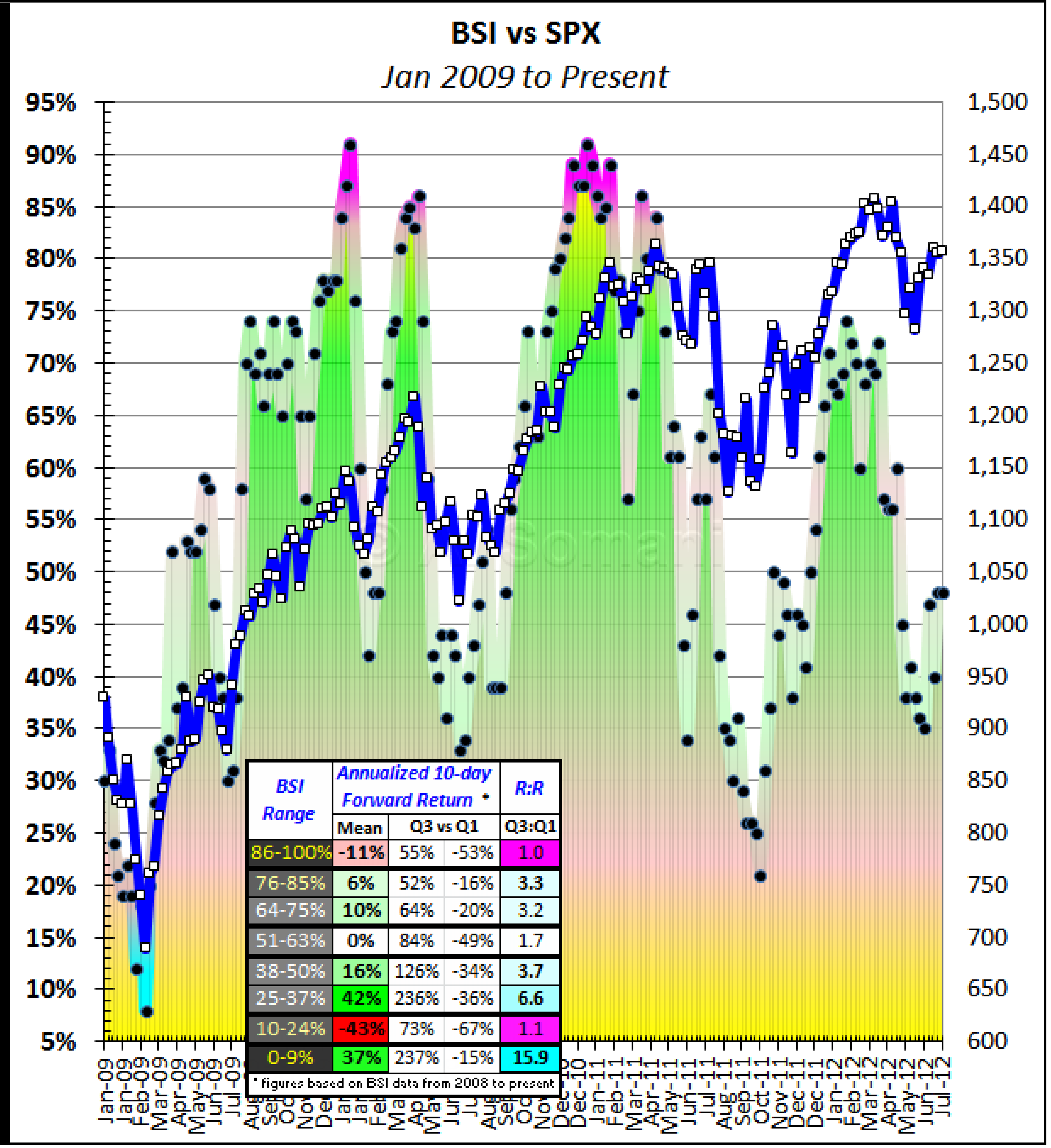
Bullish Sentiment Index (BSI) for US Equities

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)*
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
7/6/2012	1,355	0%	19	48%	8	-32
7/13/2012	1,358	0%	15	47%	-1	-19



"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 1 notch this past week to close at **47%**, while the SPX remained almost unchanged.

The SPX currently sits about 4% below its 52-week closing high and about 4% 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 wrote last weekend:

> *My thinking is that June 4th was very likely the low of this summer and thereby the low of the year, as I indicated in last weekend's report – and that a multi-week retracement of 38-70% (probably 50-62%) of the rally off the June 4th low will begin later this month, if it didn't begin late last week. Once the retracement of (presumably the first leg of) the rally off the June 4th low has completed – which will ideally happen later this month or early next – I would expect a new leg of the rally off the June 4th low to begin.*

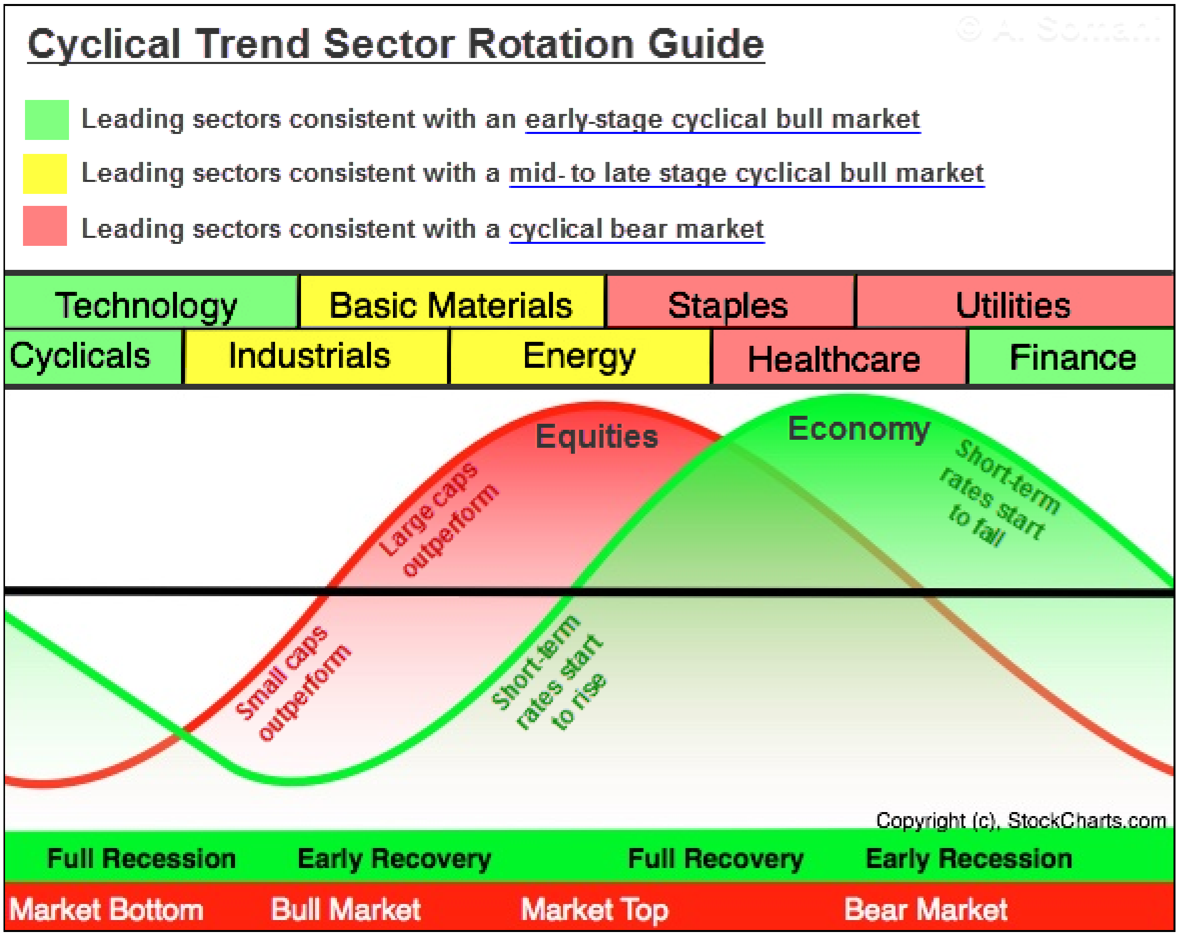
My thinking is the same this weekend.

At Thursday's low, the SPX had retraced 50% of the rally off the June 4th low. The SPY was also down 6 trading days in a row on Thursday.

So, it is possible that the next (multi-week to multi-month) leg of the rally off the June 4th low began on Thursday. I don't think this is the most likely scenario, but, one should certainly be open to it, in my opinion.

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	+3.51%	+14.21%	+13.93%
Utilities 1 Industry	+2.80%	+8.86%	+3.64%
Health Care 2 Industries	+5.50%	+5.31%	+12.23%
Consumer Staples 3 Industries	+4.16%	+4.61%	+8.45%
Financials 4 Industries	+5.55%	-1.12%	+12.80%

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, sector rotation currently appears to be consistent with US equities being in a mid- to late stage cyclical bull market*.*

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:

As Barclays stock (BCS) returns to prices it hasn’t seen since late last year, this weekend’s TIME (outside of the US) suggests that stakeholders are only beginning to grasp the totality and effects of the LIBOR manipulation scandal:

And, this weekend's Economist cover suggests that, despite its shortcomings, the American economy is slowly reinventing itself to prosper and is on the path of a "comeback":

Inside, there is also talk about how America's shale gas discoveries are going to be a big boost for its economy in the future.

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***