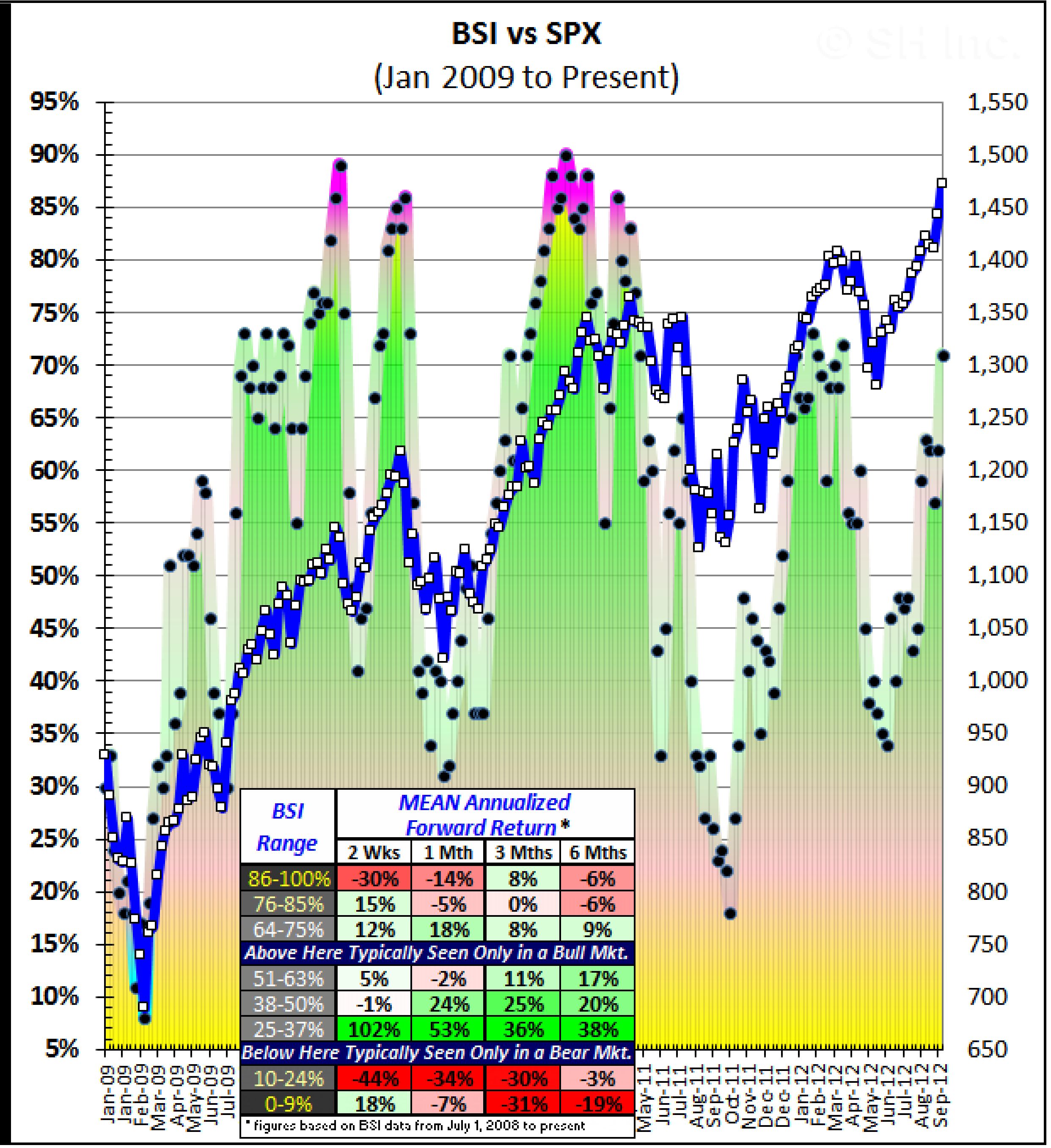
Bullish Sentiment Index (BSI) for US Equities

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)*
5/25/2012	1,321	2%	-40	40%	2	-43
6/1/2012	1,282	-3%	-45	37%	-3	-38
6/8/2012	1,331	4%	-33	35%	-2	-39
6/15/2012	1,341	1%	-15	34%	-1	**-45**
6/22/2012	1,335	-1%	0	46%	12	-41
6/29/2012	1,361	2%	12	40%	-6	-38
7/6/2012	1,355	0%	19	48%	8	-30
7/13/2012	1,358	0%	15	47%	-1	-18
7/20/2012	1,365	1%	8	48%	1	-16
7/27/2012	1,387	2%	10	43%	-5	-24
8/3/2012	1,394	0%	7	45%	2	-19
8/10/2012	1,408	1%	24	59%	14	14
8/17/2012	1,422	1%	29	63%	4	30
8/24/2012	1,415	0%	30	62%	-1	33
8/31/2012	1,412	0%	21	57%	-5	32
9/7/2012	1,443	2%	28	62%	5	35
9/14/2012	1,472	2%	38	71%	9	37



"If you want to have better performance than the crowd, you must do things differently from the crowd."

John Marks Templeton (d. 2008)

BSI Summary

The BSI rose 9 notches this past week to close at 71%. Meanwhile the SPX advanced about 2% for the second straight week.

The **SPX** currently sits ~~approximately~~ **0% below its 52-week closing high** and approximately **9% above its 200-day moving average**.

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

Within the context of a cyclical bull market, the current level of the BSI suggests:

- **bullish sentiment is at a Neutral level**; or
- **there is presently an average amount of underinvested market participants** available to fuel a multi-week to multi-month rally in US equities.

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 global market participants toward the US equities market. With regard to the BSI's associated indicators ("SPX Stretch from Mean" and "BSI Stretch from Mean"), if their associated cells are colored blue (purple) this weekend, then they are indicating an unusually oversold (overbought) US equities market and an unusually rapid drop (rapid rise) in bullish sentiment, respectively. Overall, the BSI and its associated indicators are designed with the aim of helping market participants to gauge when to tactically 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 that a market participant can use to analyze the US equities market with, and should not be interpreted except in combination with the interpretation of one or more other suites of tools that the market participant feels confident in comprehensively analyzing the US equities 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 may not be 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 the BSI 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.

> ***"****Success in investing doesn't correlate with I.Q. once you're above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.****"***
>
> ***Warren Edward Buffett***

Just the Humble Opinion of the BSI Report Editor

[The BSI Report Editor will only chime in occasionally each month, if at all, partly due to time constraints].

The German court's decision on the ESM on Wed. turned out positively while the Fed announced enough new monetary easing (effectively QE3) to I think the surprise of a significant number (although maybe not most) market participants. These are important macro developments that may affect the length of the current cyclical bull market for the better.

Here are some stats (ignoring dividends) on cyclical bull market price gains going back to 1900 (based on 26 cyclical bull markets in that time frame in the DJIA – please note that SPX daily and weekly price data is only available going back to 1928 and 1918, respectively, as far as I am aware):

	% Rise from Low to High
Average	**103%**
Median	**80%**
10th Percentile	**34%**
1st Quartile	**62%**
3rd Quartile	**123%**
90th Percentile	**173%**

The current cyclical bull market (again based on the DJIA – which, despite its arcane price-weighted structure, historically mimics the SPX very closely) has risen **108%** (from the Mar. 9, 2009 close of 6,547 to Fri.'s close of 13,593).

A 123% gain from the Mar. 2009 low would put the DJIA at 14,600 (7% gain from here).

A 173% gain from the Mar. 2009 low would put the DJIA at 17,873 (31% gain from here).

In my own head, I see the current cyclical bull market at worst ending at least somewhat toward its 2007 peak and at best ending at around 1900 (at which point it would certainly be exceptionally overvalued barring, perhaps, significant inflation).

That gives an overly simplistic, but, useful estimated price range for the end of the current cyclical bull market of about **1500-1900**. A broad range? Yes, but, perhaps necessarily so given current macroeconomics.

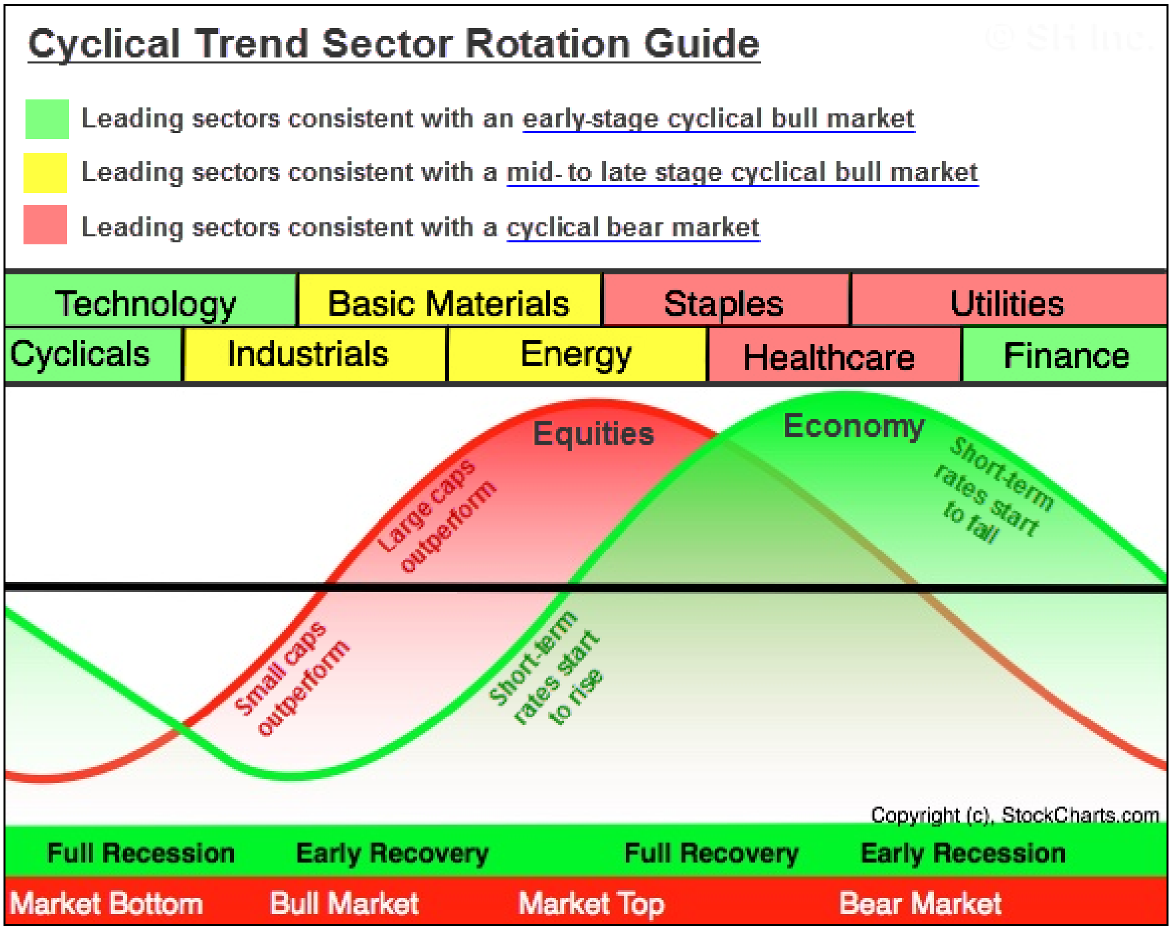
I would like to add that new highs as a % of issues based on a 5-day average (let's call it "NHT5," using Wayne Whaley's notation) always peaks ahead of cyclical bull market tops in US equities – typically by several months and occasionally by more than a year – based on data on cyclical bull market tops in US equities going back to 1929.

In the current cyclical bull market, NHT5 for the SPX peaked on Apr. 26, 2010. According to research completed by a friend of mine, who prefers not to be named, the longest lag time between a peak in NHT5 and a cyclical bull market top in the SPX, based on the last nine cyclical bull market tops in the SPX (i.e. 1973-2007), is 3.7 years – with the second longest lag time being 2.4 years.

Like other data shared in recent editions of the BSI Report, this data suggests the current cyclical bull market is very likely (but, not certain – especially given the Fed's current monetary stance) to see its end within the next six quarters.

Additional Segment: Cyclical Trend Sector Rotation Monitoring

The following "Cyclical Trend Sector Rotation Guide" is the BSI Report's staff's adaptation of a chart made available by John Murphy, CMT, who specializes in intermarket analysis:



The top five performing sectors of the SPX over the trailing quarter are highlighted below, color-coded according to the above guide:

Sector	Performance		
	1 Month	3 Month	YTD
Energy 1 Industry	+6.10%	+17.42%	+9.14%
Financials 4 Industries	+8.41%	+13.79%	+23.15%
Materials 1 Industry	+8.37%	+13.75%	+15.95%
Information Technology 3 Industries	+5.58%	+12.79%	+22.48%
Consumer Discretionary 5 Industries	+7.18%	+11.91%	+22.58%

Sector rotation may be one tool for a market participant to consider use of (among a number of others) in helping to determine the current 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 to mid-stage cyclical bull market*.*

Largely for reasons detailed in earlier reports, the BSI Report Editor continues 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 of little or no use to market participants. 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."

In light of Ritholtz's comment, here are the magazine covers this weekend (from the widely read magazines linked to at the bottom of this segment or that the BSI Report's staff find intriguing) that may be of interest to market participants:

Caption reads: "Why China is building barriers to foreign companies."

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 widely read):

1. Time Magazine
2. Newsweek
3. New York Times Magazine
4. Businessweek
5. 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***