

Bullish Sentiment Index (BSI) for US Equities

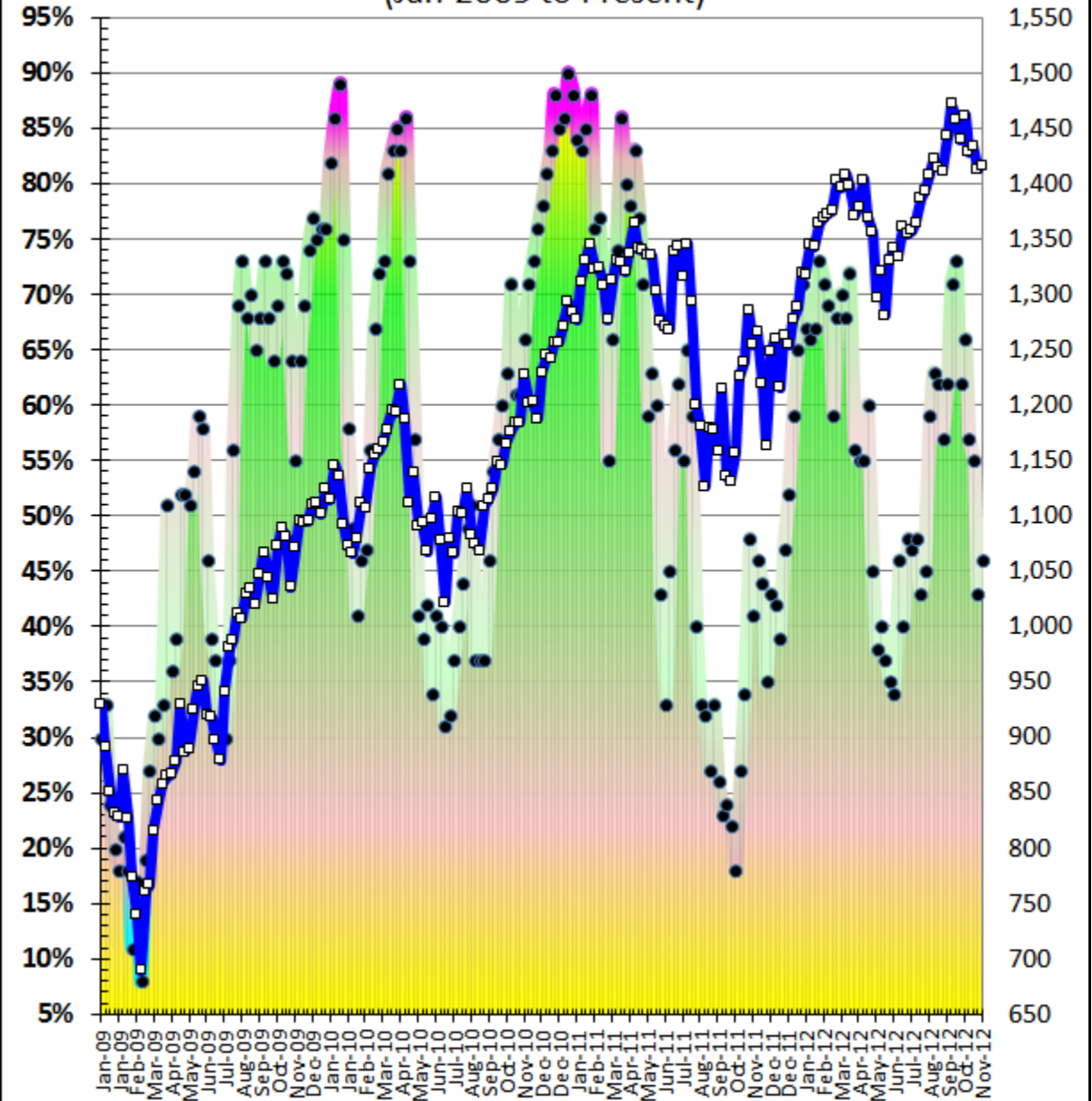
Rough BSI Interpretation Guidelines

| 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) |
|------------|----------------------|------|-----------------------------------|-----|-----|-----------------------------------|
| 7/13/2012 | 1,358 | 0% | 14 | 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 |
| 9/21/2012 | 1,459 | -1% | 37 | 73% | 2 | 41 |
| 9/28/2012 | 1,440 | -1% | 18 | 62% | -11 | 31 |
| 10/5/2012 | 1,461 | 2% | 7 | 66% | 4 | 20 |
| 10/12/2012 | 1,429 | -2% | -20 | 57% | -9 | 17 |
| 10/19/2012 | 1,434 | 0% | -29 | 55% | -2 | 12 |
| 10/26/2012 | 1,414 | -1% | -37 | 43% | -12 | 5 |
| 11/2/2012 | 1,416 | 0% | -39 | 46% | 3 | -17 |

BSI vs SPX (Jan 2009 to Present)



"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 3 notches this past week to close at 46%**. Meanwhile the SPX roughly stood flat.

The **SPX** currently sits approximately **4% below its 52-week closing high** and approximately **2.5% above its 200-day moving average**.

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

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

- **bullish sentiment is at a Shallow level**; or
- **there is presently a large 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."

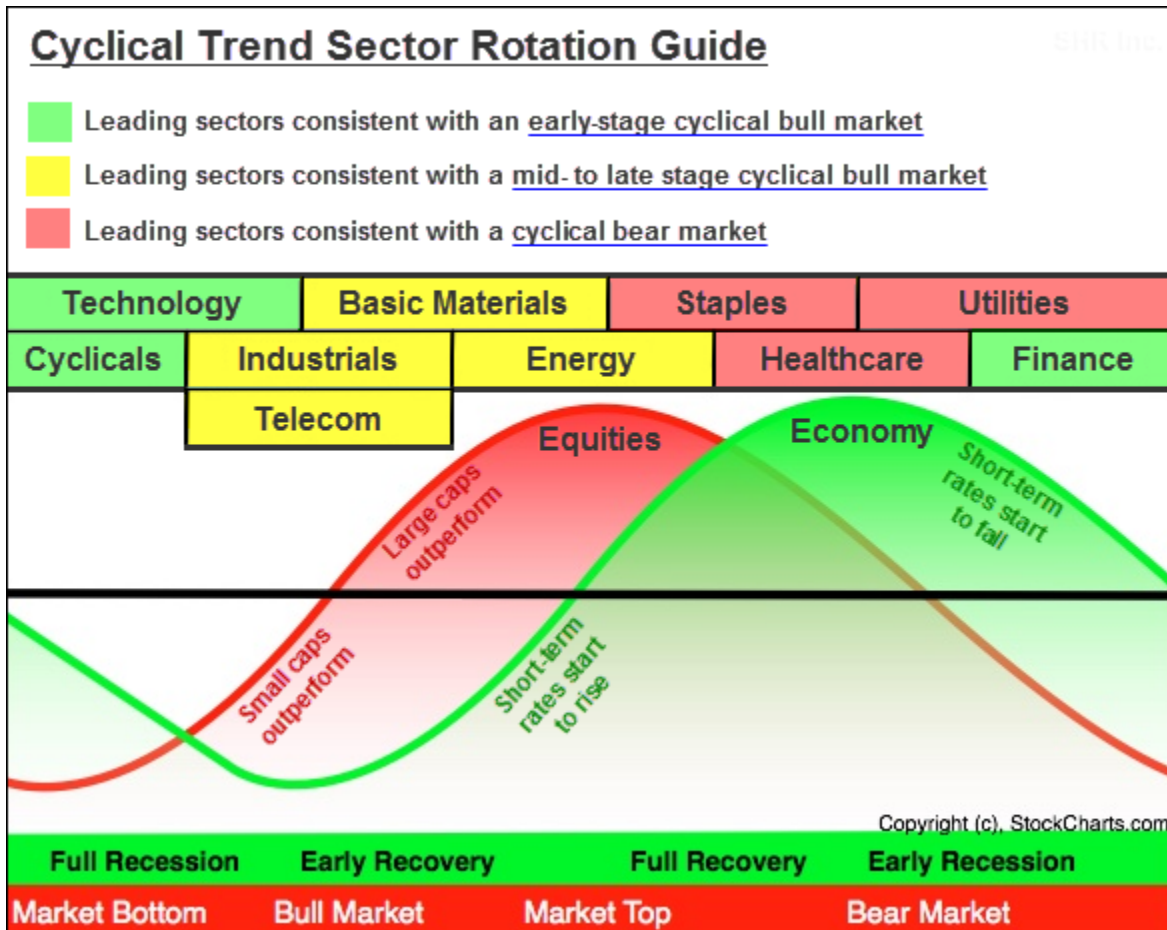
Warren Edward Buffett

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].

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, the ‘father of intermarket analysis’:



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

| Sector | Performance | | |
|---|-------------|---------|---------|
| | 1 Month | 3 Month | YTD |
| Financials 4 Industries | +1.17% | +8.90% | +20.43% |
| Consumer Discretionary 5 Industries | +0.20% | +8.67% | +20.18% |
| Materials 1 Industry | -1.37% | +6.52% | +9.92% |
| Industrials 3 Industries | +0.48% | +5.60% | +10.40% |
| Health Care 2 Industries | -2.48% | +5.09% | +16.64% |

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:

Complementing last weekend’s covers from Barrons and Huffington Post Magazine comes this cover from the far more popular New York Times Magazine:



Caption reads:

“For a true picture of the U.S. economy, ride the train from New York to Washington and take a good, hard look out the window.”

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