Crowd Sentiment Index (CSI) for US Equities

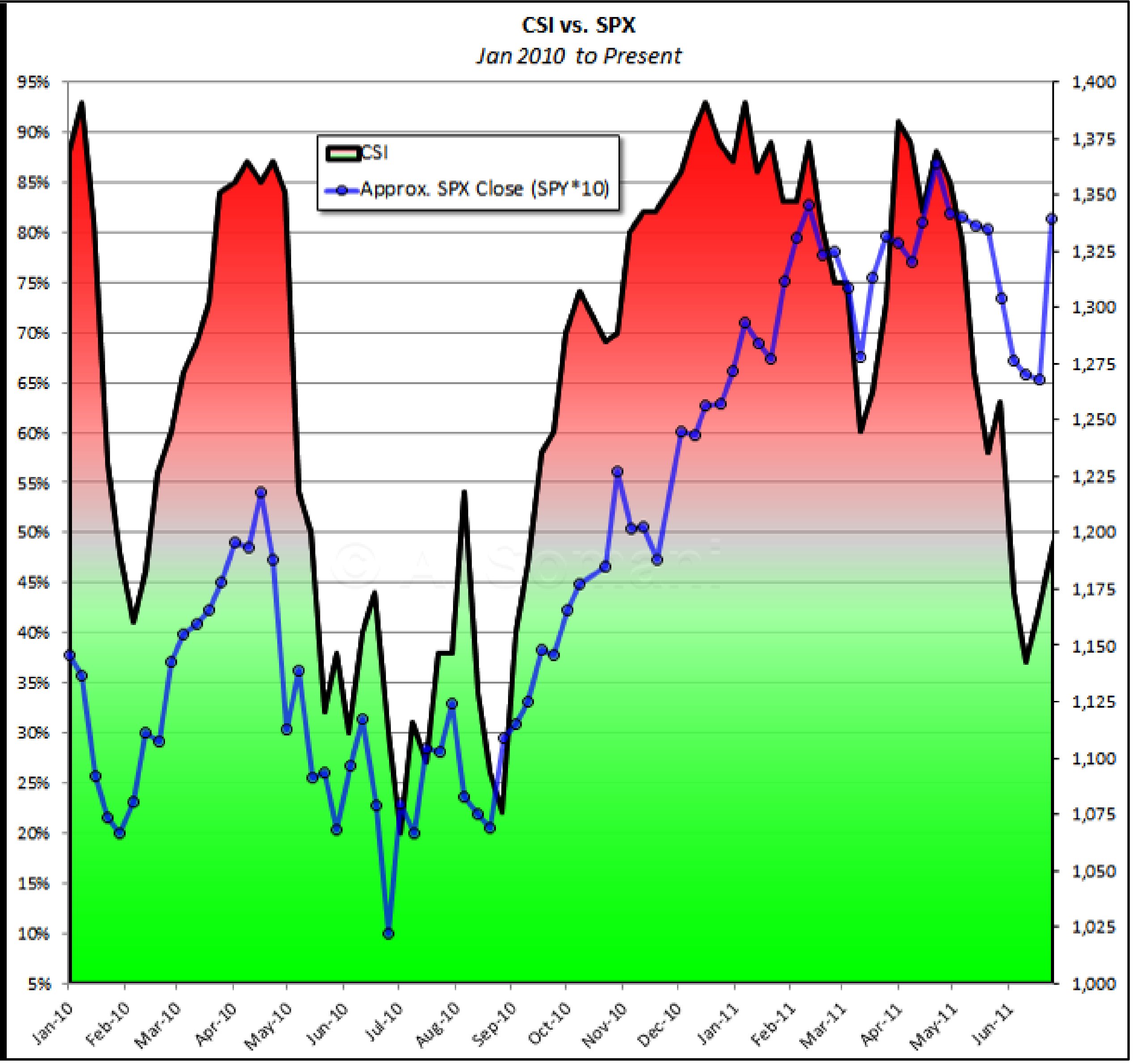
<u>Imprecise CSI Interpretation Guidelines</u>

	Bull Mkt.	Bear Mkt.
Extreme	85-100%	0-15%
Overweighted	70-84%	16-30%
Neutral	55-69%	31-45%
Overweighted	45-54%	46-55%
Extreme	25-44%	56-75%

The Crowd Sentiment Index (CSI) for US Equities is a normalized composite of trader and investor sentiment on the US stock market derived from various weekly sentiment surveys of that have been performed by third-parties.

The creation of the CSI ("the Index") was partly inspired by the concepts behind the Ned Davis Research Crowd Sentiment Poll. The Index is currently prepared solely for the purpose of recreation, and should not be used as a basis for trading or investment decisions.

Date	Approx. SPX Close (SPY*10)	%Ch.	CSI	Ch.	CSI 3-wk. Avg	Ch.
4/21/2011	1,338	1%	82%	-7	86%	-1
4/29/2011	1,364	2%	88%	6	86%	0
5/6/2011	1,342	-2%	85%	-3	86%	-1
5/13/2011	1,340	0%	79%	-6	83%	-3
5/20/2011	1,336	0%	66%	**-13**	74%	-9
5/27/2011	1,335	0%	58%	-8	64%	-9
6/3/2011	1,304	-2%	63%	5	62%	-2
6/10/2011	1,276	-2%	44%	**-19**	53%	-9
6/17/2011	1,271	0%	37%	-7	44%	-9
6/24/2011	1,268	0%	42%	5	41%	-3
7/1/2011	1,340	**6%**	49%	7	45%	4



<u>Opinionated CSI-related Commentary from an Always-learning Market Student</u>

The CSI posted a second consecutive rise this past thrilling week, ahead of tomorrow's Independence Day, but still remains in a territory more friendly to bulls than bears in a cyclical bull market. The rise in the CSI was quite tepid compared to the gain in the SPX, even discounting Friday's action - and this indicates that the up move appears to be viewed with some skepticism. Some are calling it nothing more than a massive short-squeeze, although <u>mid-week stats released from Bespoke Investments</u> indicate this view is incorrect.

Let's consider for a moment what happened last week in a bit of depth: the SPX entered the week quite oversold on a multi-week basis and being in the midst of a correction that was just starting to get a bit "long in the tooth" (at least from a top-to-bottom standpoint), while sitting just a moment's notice from its 200-day moving average. It then proceeded to move consistently higher day-after-day, getting overbought and (unlike its recent character) staying overbought. Short-term price-based mean reversion indicators, such as the 2-day RSI, for example, got up to near their highest levels in the past year on Friday. Meanwhile, the CSI did not at all increase much. Does this sound like a bounce in the midst of a cyclical bull market correction or the end of a cyclical bull market correction? To me, it sounds more like the latter. A look at how the Dow Jones Transportation Avg. and S&P Discretionary sector are faring (they hit new 52-week highs last week) provide support for this.

The upturn last week represented a rare multi-sigma 5-day surge in price and breadth (despite the understandably lower than average volume, especially on Friday), and I believe should be viewed as a good sign for the rest of this quarter and to some extent beyond (here is a good and relevant read in this regard from someone I've come to consider a friend). However, shorter-term, consider that price is about as stretched from its 20-day moving average as it ever gets. This suggests to me that we're going to see some mean reversion start to take hold and result in a multi-day downswing at some point over the next several trading days - albeit perhaps not before a few more days of window-dressing this coming shortened trading week, as would be typical. Interestingly, there was a similar (but weaker) surge in price and breadth on the SPX last July, and the SPX ended up retracing a Fibonacci 79% of that surge over the course of August before continuing what would become a memorable multi-month rally. I believe a number of traders out there are viewing this latest up move in the SPX as the building of a right shoulder in a large head-and-shoulders top (let's call them the "skeptics"). What better way to suck the skeptics in on the short-side then for the SPX to soon turn around and perform a strong multi-day decline - while still eventually (and surprisingly to the skeptics) finding support at least somewhere above its June low, if not above the 1290-1300 level? Just a thought. The main alternative to a larger retracement like this over the next several trading days could be a shallow retracement to the 50-day moving average (currently SPX 1315) or perhaps a small poke below it, before some days of consolidation that would eventually give way to further rallying.

Cautionary Note on Interpretation: *The Crowd Sentiment Index (CSI) for US Equities is 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 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 CSI to remain elevated for extended periods without the market declining in any significant way. Conversely, in cyclical bear markets, it is not unusual for the CSI to remain depressed for extended periods without the market rising in any significant way. Furthermore, the CSI is merely one tool a trader or investor can use to analyze markets, and should not be interpreted except in combination with the message being delivered by a suite of other tools the trader or investor feels confident in analyzing markets with.*