Crowd Sentiment Index (CSI) for US Equities

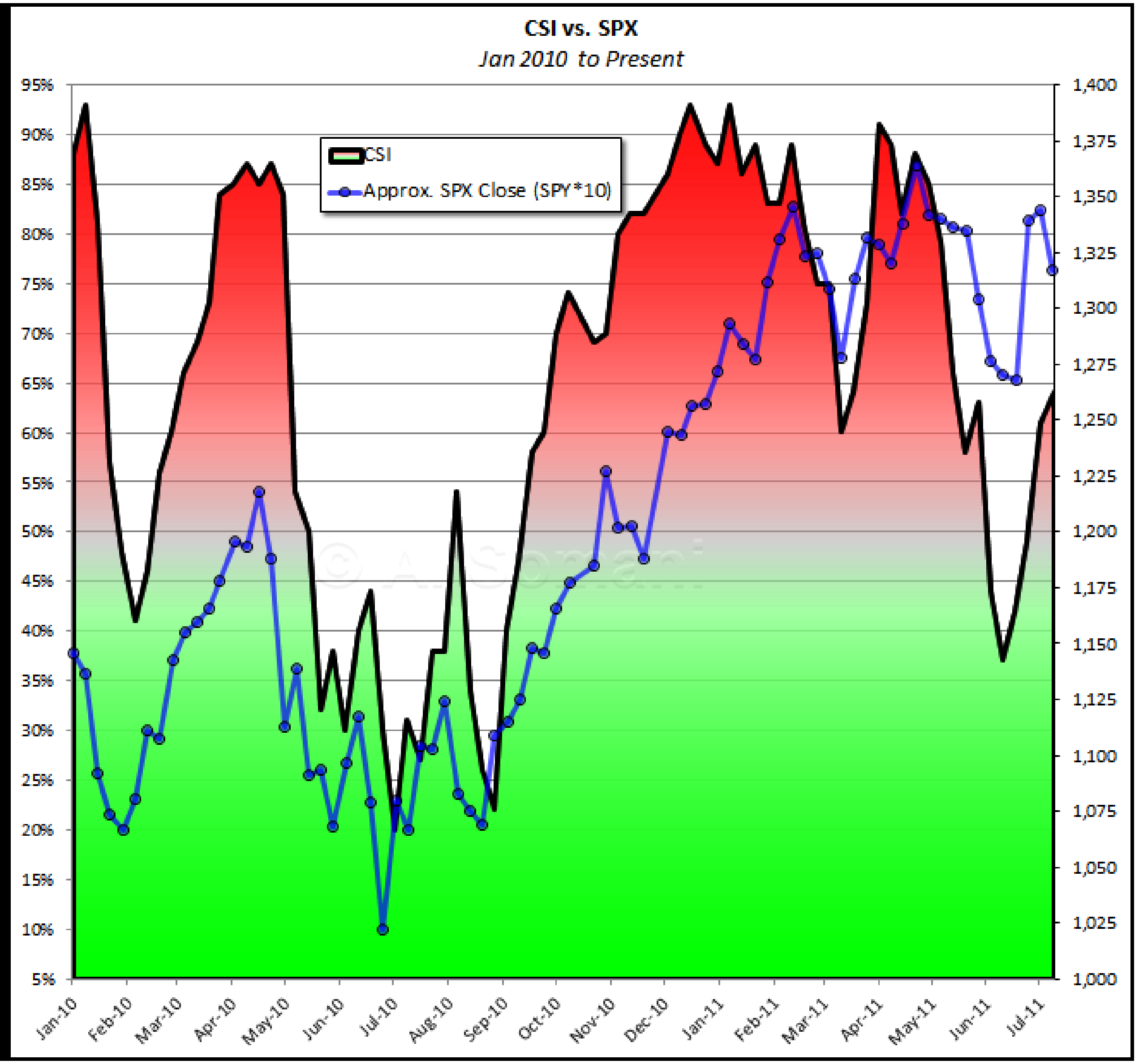
The Crowd Sentiment Index (CSI) for US Equities is a normalized composite of trader and investor sentiment on the US stock market derived from various weekly sentiment surveys that have been performed by third-parties.

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 entertainment, and should not be used as a basis for trading or investment decisions.

Imprecise CSI Interpretation Guidelines

	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%

Date	Approx. SPX Close (SPY*10)	%Ch.	CSI	Ch.	CSI 3-wk. Avg	Ch.
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	1,339	6%	49%	7	45%	4
7/8/2011	1,344	0%	61%	12	54%	9
7/15/2011	1,317	-2%	64%	3	61%	7



Opinionated CSI-related Commentary from an Always-learning Market Student

The CSI posted a minor rise this week, leaving the CSI and its 3-week average both still in neutral territory, within the context of a cyclical bull market. This minor rise came despite a ~2% decline in the SPX – hinting at the possibility of complacency in the market. But, to be fair, when I consider the change in the CSI over the past four weeks compared to the change in the SPX over this same time period, I'm left feeling that there is a general sense of despondency and only somewhat mitigated fear amongst traders and investors. The VIX moving up over 20% last week lends support to this view, as well. Let's face it: for most traders and investors, 2011 hasn't (thus far) been an easy year by any means, with the SPX having gone everywhere yet ultimately nowhere – as it now sits just above where it opened 2011.

I think a question all traders and investors need to ask themselves is whether the current basing formation building in the SPX since Feb. is ultimately going to result in a Stage 2 advance or Stage 4 decline (drawing upon the terminology of an eminent market technician, Stan Weinstein). Whichever way the SPX breaks out of its multi-month base, the move is likely to be quite big – and the data from the CSI supports that (as it has a significant amount of room to move higher in the context of a cyclical bull market, but also sits in quite bearish territory if one sees the SPX in the context of a cyclical bear market). After all, it was a similar base built during the summer of last year that led to one of the most memorable multi-month rallies in recent stock market history (late Aug. 2010 to essentially mid-Feb. 2011, during which time the SPX moved up over 25%).

To me, the direction the SPX takes coming out of this base is what's crucial in the big picture of things – as the money to be made while the SPX continues to remain range-bound is limited. One may even wish to consider making a list of reasons why the SPX may break out of its basing formation one way over another – and determine if history and/or the current environment strongly favors the bulls or bears going forward, accordingly. I have been doing this exercise myself and have been updating it now and then over the past several weeks, and – probably unsurprising to you – (continue to) feel that bulls will again be at a significant advantage over bears, from a probabilities standpoint, once the SPX eventually moves out of its current multi-month basing formation and returns to a trending bias (versus its current mean reversion bias).

Interestingly, if we consider what has been happening in the market over the past few weeks, I'm again reminded of late July and some of August last year. Yes, the current cyclical bull market has aged somewhat since then and upside momentum coming out of any base is not likely to be as strong as back then, but the pattern of price movement that occurred back then may be useful to consider. Recall, the surge in price and breadth that we saw prior to the July 4th long weekend (quite similar to the breadth thrust that occurred in late July 2010 – which had important multi-month implications – and which followed what ended up being both the low of the summer of 2010 as well as an important Pivot Reversal), and my suggestion that a significant but buyable retracement would be likely over the coming weeks if we were to follow the pattern of Aug. 2010. Over the last two weeks, the SPX has retraced 50% of its thrust off of its June low. This is less than the 78% retracement we saw during Aug. 2010 of the late July 2010 thrust, but indicates to me that the market may make a secondary and higher low shortly (within the next 2-3 weeks, and perhaps as early as this week?) that, if history is an indication, could prove to be an excellent multi-week to multi-month buying opportunity. With this in mind, and assuming the SPX continues to hold above its June price low, it may be wise to pay attention to how the market responds to any potentially bullish catalysts in the coming several trading days (for example, a possible raising of America's debt limit, for which a deadline has been set of midnight on Aug. 2).

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.*

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