Crowd Sentiment Index (CSI) for US Equities

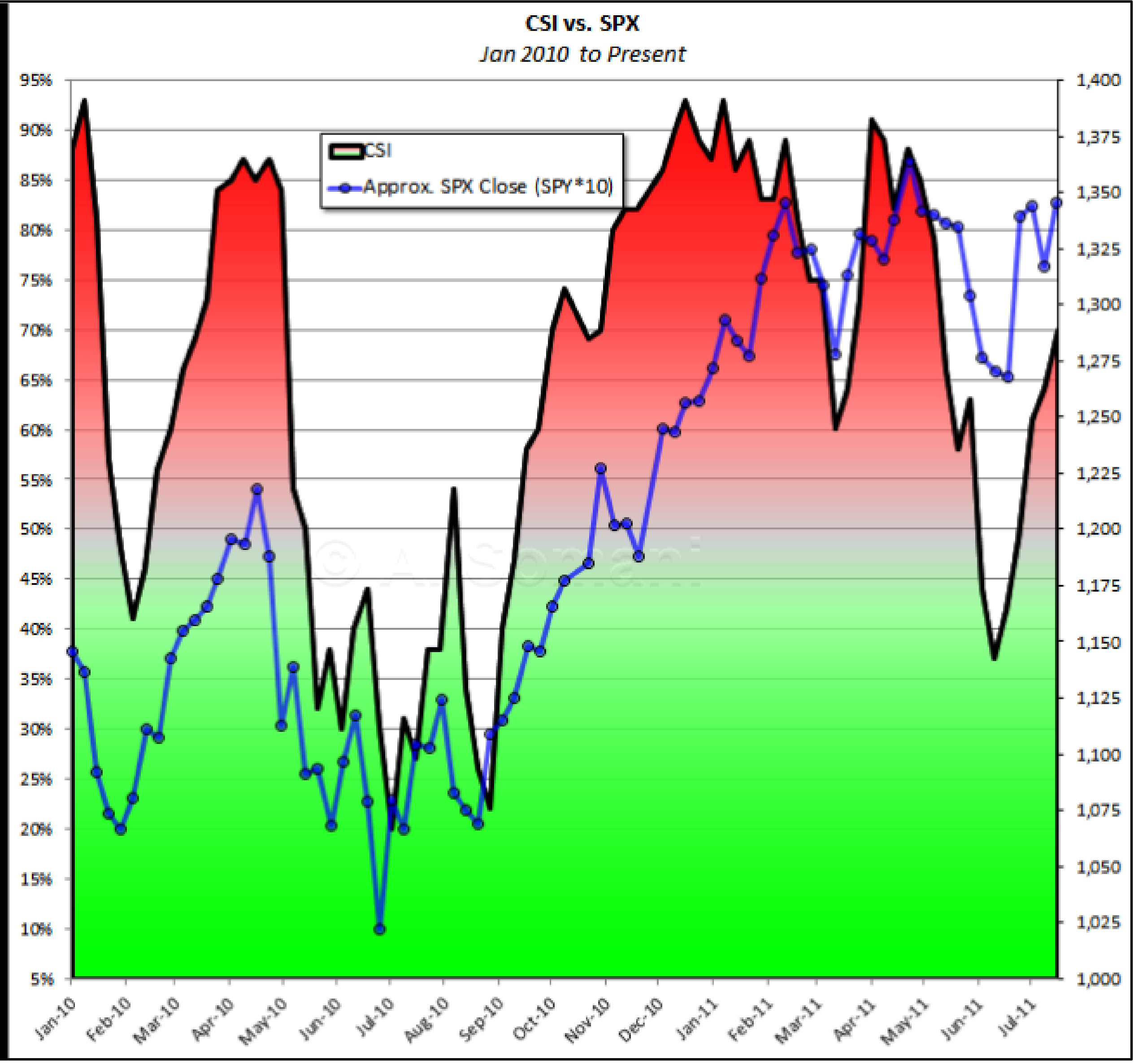
Imprecise CSI Interpretation Guidelines

	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%

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.

Date	Approx. SPX Close (SPY*10)	%Ch.	CSI	Ch.	CSI 3-wk. Avg	Ch.
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
7/22/2011	1,346	2%	70%	6	67%	6



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

The CSI posted its fifth consecutive gain this past week, closing just above the neutral zone for a cyclical bull market environment. It is still a fair distance from indicating extreme optimism and in fact rose by a rather small amount given the rise in the SPX we saw for most of last week. On Monday, the SPX completed a 62% retrace of its early July breadth thrust. As you may know, this retracement appears reminiscent in some ways to me of the 78% retracement we saw in the SPX last August following the breadth thrust of July 2010 (a breadth thrust that followed a major SPX bottom and largely went unnoticed except to those who monitor market breadth changes regularly).

Evidence of a coming breakout in the SPX above its multi-month consolidation zone between ~1250-1350, despite having been already building for weeks, continues to mount. Most recently, we have seen a number of leading growth stocks hit new 52-week highs recently (most notably Apple), notable relative strength in the Nasdaq Composite (which looks set to definitively break above its 2007 high in the coming weeks), indications of likely multi-week and possibly multi-month trend changes in the US Dollar Index and long-term government bonds, gold holding its new highs and seemingly leading the return of a risk-on environment (a pattern we have seen in the past prior to bouts of SPX strength), and so forth. In short, cutting through the noise, the inflationary / risk-on environment that showed its face prior to the July 4th long weekend continues to predominate and perpetuate – with earnings reports thus far generally being supportive.

Headlines I'm seeing this weekend, including fears of a continuing trendless environment as well as increasing skepticism over the US debt limit being raised, reflect recent concerns that the market has thus far not been confirming. Bulls should be happy to see these types of headlines because they aid in continuing to provide the backdrop and the fuel that would be needed to propel the SPX forward in any major way in the coming weeks (pockets of weakness here and there notwithstanding). As an aside, I took note of one particular article from a major news agency (the need for retail investors to ask if it's time for cash) as being the type one would almost never see anywhere near the end of a cyclical bull market.

Looking to this week, it would not surprise me to see the SPX remain volatile and perhaps range-bound (but with a slightly bullish bias) until a conclusion to the debt limit debacle is reached. The deadline for a deal (midnight EST on Aug. 2) is quickly approaching. If an agreement to raise the debt limit can come from Tuesday of this week to Tuesday of next week, it would be ideal – as an agreement in this case would coincide with the normally bullish month-end window dressing period for the SPX.

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.*