Crowd Sentiment Index (CSI) for CSI vs. SPX The Crowd Jan 2010 to Present **US Equities** Sentiment Index 95% 1,400 (CSI) for US Equities is a normalized and 90% 1.375 CSI CSI Imprecise CSI Interpretation Guidelines smoothed composite Approx. SPX Close (SPY*10) 85% 1,350 of investor Bull Mkt. Bear Mkt. sentiment on the US 80% 0-8% Extreme 1,325 stock market 9-18% Overweighted 75% derived from various 1,300 56-70% 19-30% Neutral daily and weekly 70% Overweighted 46-55% sentiment guages 1,275 65% produced by third-27-45% Extreme 1,250 parties. 60% 1,225 55% Approx. SPX 50% 1,200 Close %Ch. Ch. Date CSI (SPY*10) 45% 1,175 40% 5/20/2011 1,336 0% 67% -11 1,150 5/27/2011 1,335 0% 65% -2 35% 1,125 6/3/2011 1,304 -2% 63% -2 30% 1,276 6/10/2011 -2% 46% -17 1,100 25% -7 6/17/2011 1,271 0% 39% 1,075 20% 6/24/2011 1,268 0% 48% 9 1,050 7/1/2011 1,339 6% 54% 15% 7/8/2011 1,344 0% 60% 6 1,025 10% 7/15/2011 1,317 -2% 61% 7/22/2011 2% 70% 1,346 9 Lear of Mario Mario Mario Intio 1970 Mario Sear of Octio Morio Decio Intio Centi Mario Mario Mario Intio 1971 -4 7/29/2011 1,293 -4% 66%

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

The CSI ends this latest week of market action once again in the neutral zone within the context of a cyclical bull market, despite an ~4% decline in the SPX to end the month of July. It is a bit surprising that the CSI has not declined more, actually (and this can be viewed as a negative sign). But, one has to respect the fact that many investors have simply substantially reduced their market exposure going into the debt ceiling deadline this Tuesday. It is not uncommon to see traders right now sitting in cash levels of 75-100%, based on the communications I've had. To add to this, according to Schaeffer's Research, "weekly mutual-fund data showed fund investors withdrew cash from domestic funds for the 13th consecutive week, with \$6.5 billion pulled in the latest week -- the largest weekly outflow since the \$6.9 billion withdrawn at the June lows." These outflows of cash – apparently more due to uncertainty rather than (more specifically) fear about coming market action – seem to be the best explanation for what was the largest weekly decline in the SPX in months.

Friday's close produced short-term oversold readings in a number of technical indicators, including 20-day new lows, the 10-day advance-decline line, etc. NYSE Tick also closed below 1,000 on Wednesday, which is a rare occurrence. In the past, this type of action has very often led to strength at least 3-10 trading days out – particularly if such action occurred near month-end window dressing (which should be in effect until about this Wednesday). As such, I believe the probabilities are quite high that the market closes higher next week – but realize that should the debt limit unexpectedly not be raised next week, or possibly some other market shock develops, then short-term oversold readings may not be respected and the market could either consolidate or rather easily decline further without even a noticeable bounce. It was somewhat disheartening for the bulls to see the SPX close last week below its July 18th swing low (although the break of that low on a closing basis has so far been only marginal and may only be temporary). On the other hand, the SPX found support at the 200-day moving average on Friday and has now retraced 78% of its breadth thrust from early July – similar to how it retraced 78% of a similar breadth thrust last August. I'm not suggesting the market will move forward from its current situation like it did in late August of last year (especially given how much higher the CSI is currently compared to at that time), but do think it is far from being out of the realm of possibility that a multi-week low (and perhaps the last major low of this trading range) may be currently forming.

Whichever way the market decides to move from here, both bulls and bears seem to have a fair bit of gas in the tank to propel them forward, given how many traders are waiting to see something they feel comfortable betting on (and the CSI suggests as much, moving up and down in recent weeks while still remaining at an ultimately neutral level). Which party will gain the first-mover advantage that is probably necessary to break the current multi-month sideways trading range the SPX has been in? I still remain quite skeptical that it will be the bears in any definitive way (especially with the large amount of "S&P head-and-shoulders top" discussions I'm seeing – meaning that any significant breach of the all-important SPX 1250 level, should we happen to see it, may prove only to be temporary). Should it be the bears who take advantage, though, then the correction off the May low will deepen below the June lows – but I would be quite hesitant to consider it the start of a new cyclical bear market. Note that deeper than average corrections during bull markets tend to end around the 20-month moving average which is currently at about SPX 1200 (and rising) – or about the same level as two standard deviations below the 200-day moving average (this latter zone provided lasting support last summer and normally only fails as a support zone when a cyclical bear market is underway).

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 rising 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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