

## Bullish Sentiment Index (BSI) for US Equities

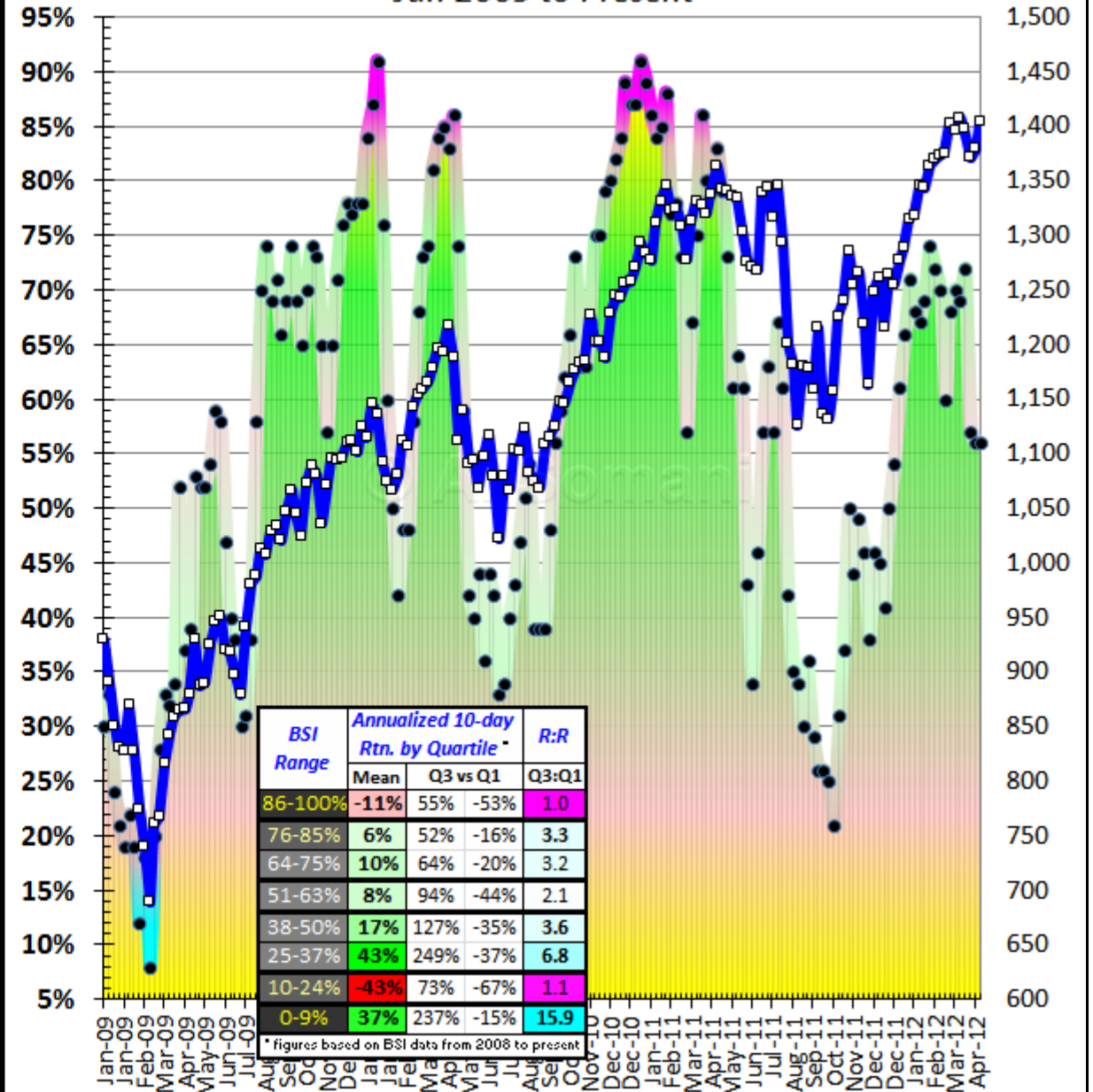
### Rough BSI Interpretation Guidelines

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)
1/13/2012	1,288	1%	22	66%	5	43
1/20/2012	1,315	2%	36	71%	5	33
1/27/2012	1,318	0%	40	68%	-3	33
2/3/2012	1,345	2%	44	67%	-1	29
2/10/2012	1,344	0%	41	69%	2	30
2/17/2012	1,364	2%	42	74%	5	43
2/24/2012	1,369	0%	37	72%	-2	41
3/2/2012	1,373	0%	37	70%	-2	35
3/9/2012	1,376	0%	22	60%	-10	28
3/16/2012	1,403	2%	32	68%	8	25
3/23/2012	1,397	0%	34	70%	2	21
3/30/2012	1,408	1%	28	69%	-1	13
4/5/2012	1,398	-1%	24	72%	3	6
4/13/2012	1,371	-2%	-11	57%	-15	-20
4/20/2012	1,380	1%	-26	56%	-1	-25
4/27/2012	1,404	2%	-21	56%	0	-25

## BSI vs SPX Jan 2009 to Present



Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.  
The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.

John Marks Templeton

## **BSI for US Equities – Summary**

The BSI stood flat this past week to close at 56%. It has now spent a total of 18 weeks in what would be *Neutral* territory for a cyclical bull market. Meanwhile, the SPX closed higher by about 2%. The SPX sits about 1% below its 52-week closing high and about 10% above its 200-day moving average.

The current level of the BSI should be interpreted within the context of the current [cyclical trend](#):

- Within the context of a ***cyclical bull market***, the current level of the BSI suggests **bullish sentiment is Neutral** – so, there is apparently an average amount of “gas in the tank” for a multi-week rally.

At the end of each calendar month, it will be evaluated for the purpose of this 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.

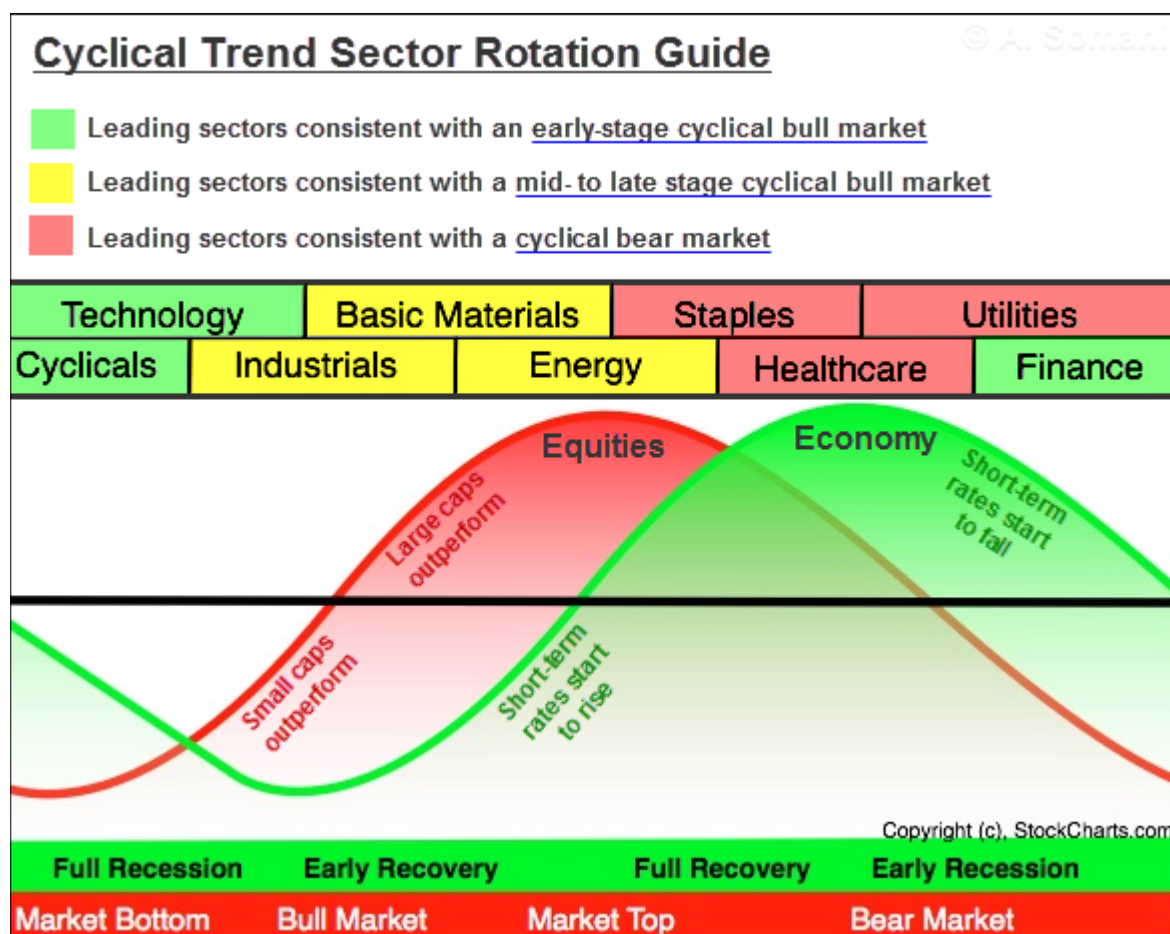
*On Monday, the S&P 500 E-mini nearest-month futures contract (ES or ESM for June) opened the regular session with a sizeable gap down, following a weak Friday, with the SPX still above its 200-day – all of which, combined, suggested at least short-term low. The ES also re-tested its lowest low of April, midday, while sporting a sizeable positive breadth divergence (in the 10-day Advance-Decline Line, for example). The ES also managed a strong close for the regular session despite the sizeable gap down, indicating the weakness was being bought. Altogether, these, among other indicators, were strong signals that an important short-term low and very possibly an intermediate-term low was put in by the SPX that very day.*

*In any case, the SPX has yet to significantly breach the 5-6% drawdown threshold that one would expect to be breached in a correction. And, that is not surprising, given the subdued level of optimism that preceded the decline that began in late March in the SPX. Now, comes the interesting part – is the dip over and will the SPX continue to rally? Or is there another leg down coming? I think I have some idea on which of these two possibilities the odds favor, but, one must always remember, just in case, that the market sometimes doesn't follow the odds.*

**Cautionary Note on BSI Interpretation:** The Bullish Sentiment Index (BSI) for US Equities and its associated indicators (“SPX Stretch from Mean” and “BSI Stretch from Mean”) are 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 hedge/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 BSI and its associated indicators to remain elevated for extended periods without the market declining in any significant way. Conversely, in a cyclical bear market, it is not unusual for the BSI and its associated indicators to remain depressed for extended periods without the market rising in any significant way. Furthermore, the BSI and its associated indicators represent merely one suite of tools a trader or investor can use to analyze markets, and should not be interpreted except in combination with the interpretation of one or more other suites of tools that the trader or investor feels confident in comprehensively analyzing markets with.

## Additional Segment: Cyclical Trend Sector Rotation Monitoring

The following cyclical trend sector rotation guide is my personal adaptation of a [chart made available by John Murphy of Stockcharts.com](#):



The top five performing sectors of the SPX over the past 3 months are highlighted below, color-coded according to the above guide:

Sector	Performance		
	1 Month	3 Month	YTD
<b>Information Technology</b> 3 Industries	-1.95%	+10.90%	+19.25%
<b>Consumer Discretionary</b> 5 Industries	+0.56%	+10.28%	+17.86%
<b>Financials</b> 4 Industries	-1.48%	+8.85%	+17.53%
<b>Telecommunication Services</b> 1 Industry	+1.70%	+8.81%	+4.92%
<b>Consumer Staples</b> 3 Industries	+0.72%	+6.47%	+5.58%

Sector rotation may be one tool for a person to consider use of (among a number of others) in helping to determine the [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 stage cyclical bull market.

*As detailed in earlier reports, I continue 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 meaningless for the average market participant. 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."

*This segment of the BSI Report is suspended for an indeterminate period of time due to time constraints. I hope to bring it back sometime in June, though.*

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 popular):

1. [Time Magazine](#)
2. [Newsweek](#)
3. [Businessweek](#)
4. [The Economist](#)

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