Crowd Sentiment Index (CSI) for US Equities

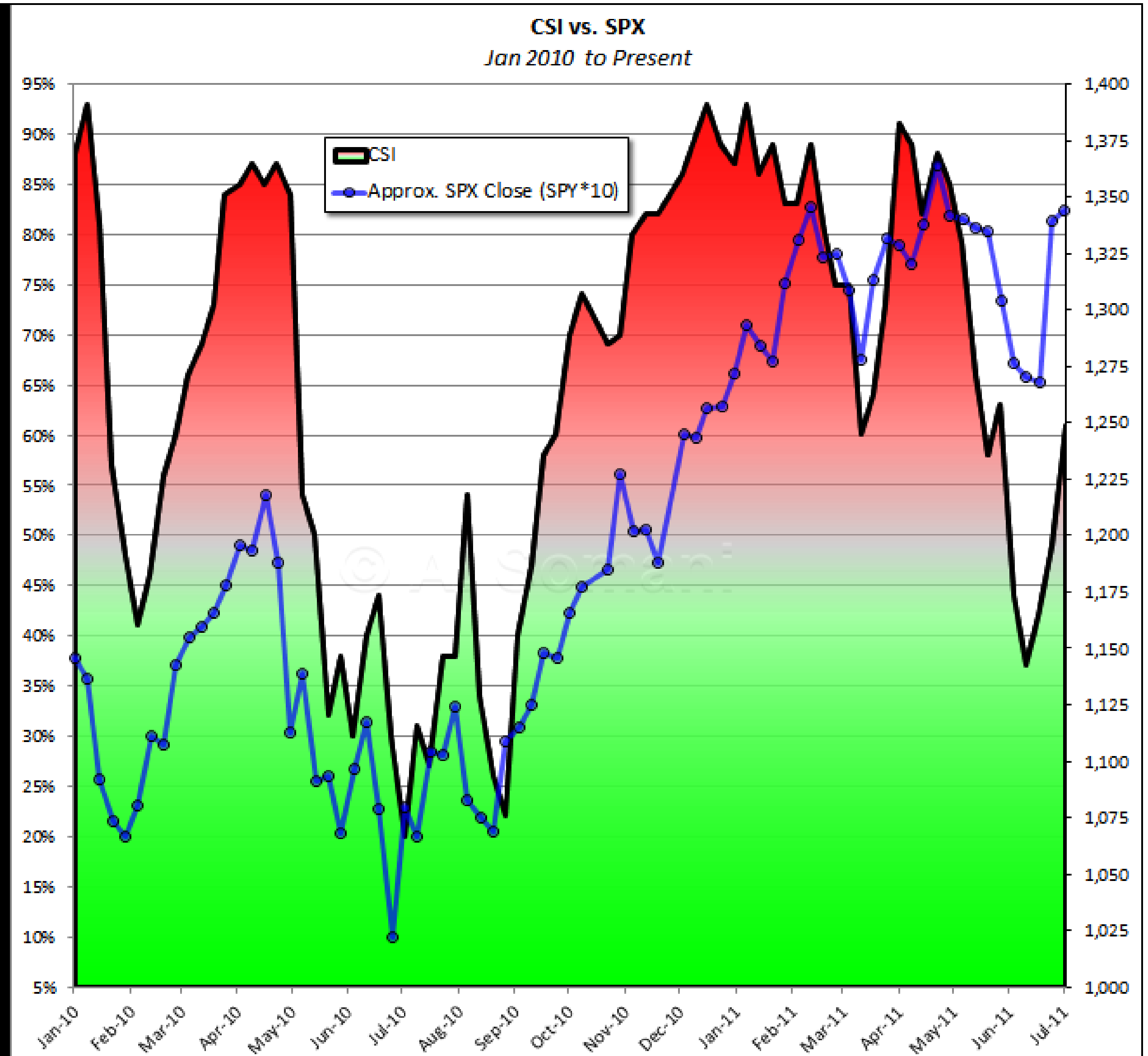
Imprecise CSI Interpretation Guidelines

	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.
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	1,339	6%	49%	7	45%	4
7/8/2011	1,344	0%	61%	12	54%	9



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

The CSI posted a significant gain this week as the SPX managed to end the week unchanged, and the CSI has now essentially moved into what would be neutral territory on both a weekly and 3-week average basis, in the context of a cyclical bull market. This suggests that the rally that we've seen off the mid-June low has potentially a significant amount of upside still remaining in the coming weeks, notwithstanding the possibility of minor corrective dips here and there. A repeated assertion that this rally is not due to short covering, from Bespoke Investments, bodes well for the future of this rally, also.

Even though the SPX closed the week unchanged, its resiliency in the face of short-term extreme overbought conditions at the beginning of this past week was impressive (although it may have had more to do with the start of a new quarter than one would like to think) – and is typical of the action we saw in September and December, as the market rallied off of multi-week oversold conditions from late August and mid-November, respectively. Closing at session highs on Friday, following a much-expected gap fill in the SPX and SPY, doesn't hurt either. Given that the SPX Advance-Decline line notched a new 52-week high on Thursday, it seems a new 52-week high in the SPX cannot be far off – in fact, it has a good chance of being seen before the end of this month, in my opinion.

The x-factor as to whether a not unusual multi-day downswing or retracement of the recent move occurs (or continues from Friday) in the coming trading days (say to SPX 1320 or SPX 1300), which some money managers have been perhaps praying for, may be how the early part of earnings season develops. However, bears should be aware that there seems to be a significant amount of potential for upside surprises as analysts have been quite cautious in their earnings guidance coming into this quarter. Earnings season kicks off on Monday with Alcoa and Novellus.

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.*