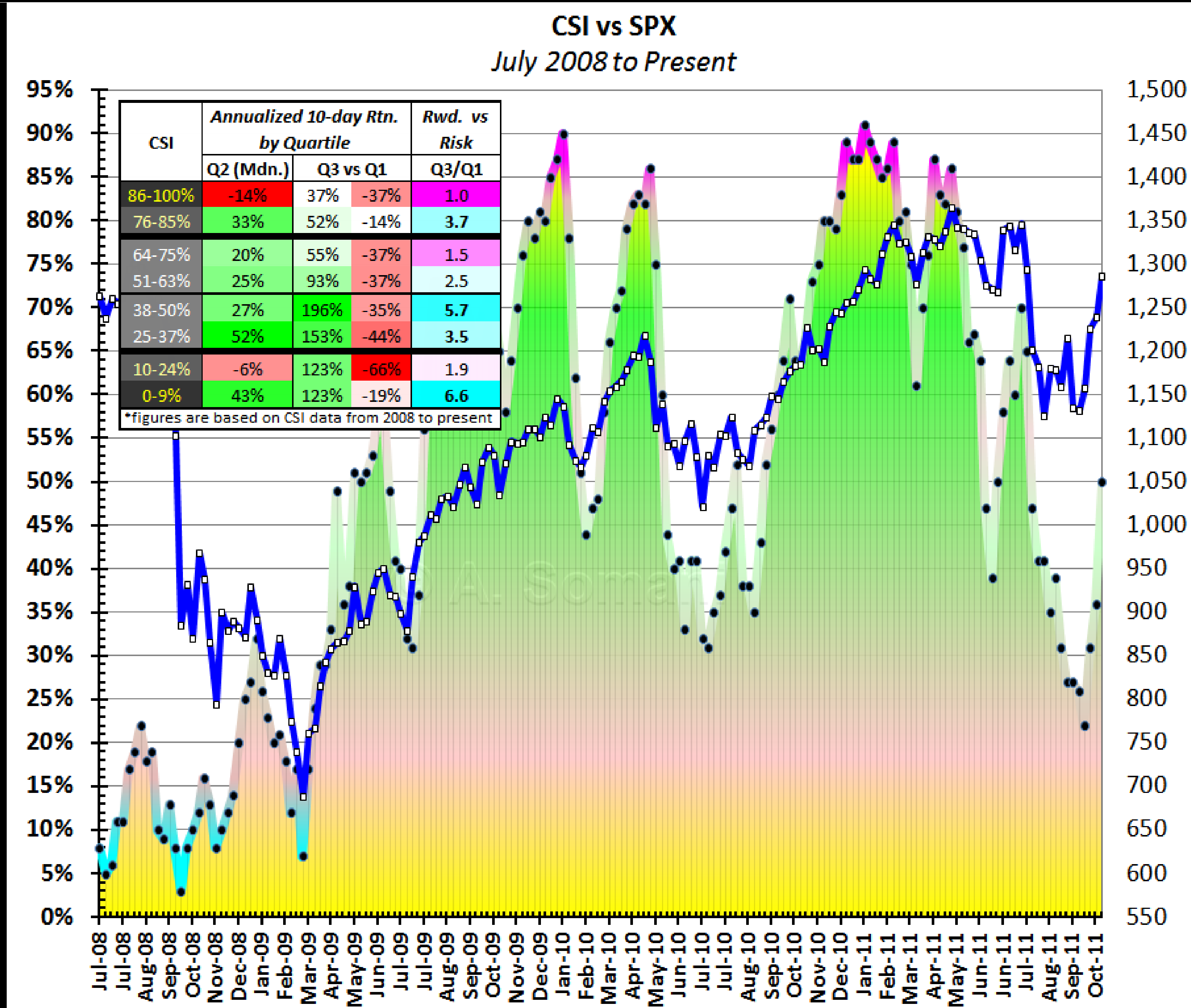
Crowd Sentiment Index (CSI) for US Equities

The Crowd Sentiment Index (CSI) for US Equities is a smoothed and normalized composite of crowd sentiment (ranking from 0-100%) on the US stock market that is derived from various daily and weekly sentiment guages prepared externally by third parties.

Imprecise CSI Interpretation Guidelines

	Bull Mkt.	Bear Mkt.
Extreme	86-100%	0-9%
Alarming	76-85%	10-24%
Neutral	51-75%	25-37%
Alarming	38-50%	38-50%
Extreme	25-37%	51-63%

Date	Approx. SPX Close (SPY*10)	%Ch.	CSI	Ch.
7/8/2011	1,344	0%	64%	6
7/15/2011	1,317	-2%	60%	-4
7/22/2011	1,346	2%	70%	10
7/29/2011	1,293	-4%	65%	-5
8/5/2011	1,201	-7%	47%	-18
8/12/2011	1,181	-2%	41%	-6
8/19/2011	1,126	-5%	41%	0
8/26/2011	1,180	5%	35%	-6
9/2/2011	1,179	0%	39%	4
9/9/2011	1,159	-2%	31%	-8
9/16/2011	1,215	5%	27%	-4
9/23/2011	1,135	-7%	27%	0
9/30/2011	1,132	0%	26%	-1
10/7/2011	1,157	2%	22%	-4
10/14/2011	1,226	6%	31%	9
10/21/2011	1,240	1%	36%	5
10/28/2011	1,286	4%	50%	14



Summary from the CSI Editor

The below (exempting the italicized note on the cyclical trend) is not atypical of what you will find in the CSI Report going forward, due to additional time constraints in my schedule (as mentioned last week). However, occasionally, I email out small observations or interesting articles that may be useful to retail traders and investors with busy schedules, like myself. Many of you already receive these emails but for those of you that don't but wish to, just let me know.

- The CSI jumped by 1400 basis points this past week to close at 50% – its largest advance (in terms of basis points) since the week ended July 31st, 2009.
  - For comparable advances to this week's, in the CSI, one must go back to April 2008 (the first major rally in the 2007-09 cyclical bear market) or to the early part or middle of 2009 (following the 2007-09 cyclical bear market low). Occurrences were limited, but it may be worth noting that SPX gains the following week tended to be limited to 1.5% or less, or were negative.

- Within the context of a cyclical bull market, the current level of the CSI is bullish, but no longer extremely so. Considering that the market may be in the midst of a broad-based cyclical bull market advance, the current level of the CSI suggests there is still significant room for higher prices in the current rally because there are still many who may buy into the current rally that have not yet done so.

- Within the context of a cyclical bear market, the current level of the CSI is bearish, but not yet extremely so. Considering that the market may be in the midst of a cyclical bear market rally, the current level of the CSI indicates the rally is maturing and is significantly more than half complete, as many of those willing to risk riding it have already hopped on board.

With regard to the status of the current cyclical trend, I can certainly sympathize with the comments of Carl Swenlin this week. My own feelings are that with continuing positives in market breadth and this week's continuation of breakdowns in long-term treasuries and especially (and surprisingly) the US Dollar Index – not to mention reflationary activity in precious metals (coming off multi-year lows in precious metals sentiment, following the substantial jump in M2 in recent months as well as the introduction of Operation Twist earlier this month), and an averted meltdown in the Eurozone (although I'm sure we haven't seen the end of the crisis there) – probabilities favor that US stocks are still in a mid- to late-stage cyclical bull market that has yet to make its ultimate top. Having said that, a pullback in the SPX of 3-8% (but most likely less than 5%) within the next several trading days (probably post-window-dressing) would not surprise me, considering the recent jump in sentiment, a stretched VIX, and extreme short-term overbought conditions currently in place.

As a side note: I find that changing my opinion on the cyclical trend has not impacted my trading and investing (which is largely rules-based) – as I was thankfully hedged or net short for most of this year's decline (particularly from late July) and have thankfully been long for most of this upturn (especially since Oct. 10th). Somewhat early on in both cases, I had (fortunately) determined that the decline we saw was at least a substantial cyclical bull market correction (and possibly the start of a cyclical bear market), and I had (fortunately) determined that this upturn was at least a substantial cyclical bear market rally (and possibly the continuation of the 2009 cyclical bull market). Rallies early on in cyclical bear markets (when the cyclical trend is less clear) tend to be especially rewarding for a trader, as opposed to rallies occurring in mature cyclical bear markets (when the cyclical trend is clear or far clearer), that tend to be much more difficult for a trader to traverse. Anyway, the takeaway from all this may be quite simple, I think: some understanding of the cyclical trend is helpful but an exact understanding of it is often not necessary. Another way of looking at it is that traders and investors should focus on attempting to correctly respond to market action as it develops rather than (overly) concerning themselves with what the future holds for the market.

"Our job is not to predict where the market will go, but to interpret daily price and volume action to ascertain the facts of the current environment and make decisions based on that interpretation."

-Scott O'Neil (son of William O'Neil), Portfolio Manager at O'Neil Data Systems, when asked in a televised interview about where the Dow was headed in the coming months

***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 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 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.*