



Sentiment Update—Some Complacency Remains

Ultimately, the marketplace boils down to the summation of the decisions of the participants involved. Many people assume that price is a consequence of money flows. We often hear about “cash on the sidelines” or similar phenomena. But this skews the picture away from the true driver of price—the eagerness of the two parties involved in the transaction. Price is ultimately a reflection of psychology and the views two transacting parties have with regards to a particular asset. The meeting place between these sentiments is what ultimately determines price. It can be irrational, it can be rational, but it is *always* the going price of the goods & services being sold.

Sentiment Indicator Update

Sentiment indicators won't give us the complete picture of the investment landscape, but they provide us with an important piece of the puzzle. These indicators provide us with a real-time snap-shot of market psychology and where the bulls and bears might be leaning too heavily. This helps us better manage risk.

The indicator at the right is well known. The AAI's sentiment indicators measure individual investor sentiment. We use % bulls as we find that this indicator tends to best correspond with market shifts. The current reading is marginally pessimistic and doesn't tell us

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Long story short—
A weak economy is better than a contracting economy....

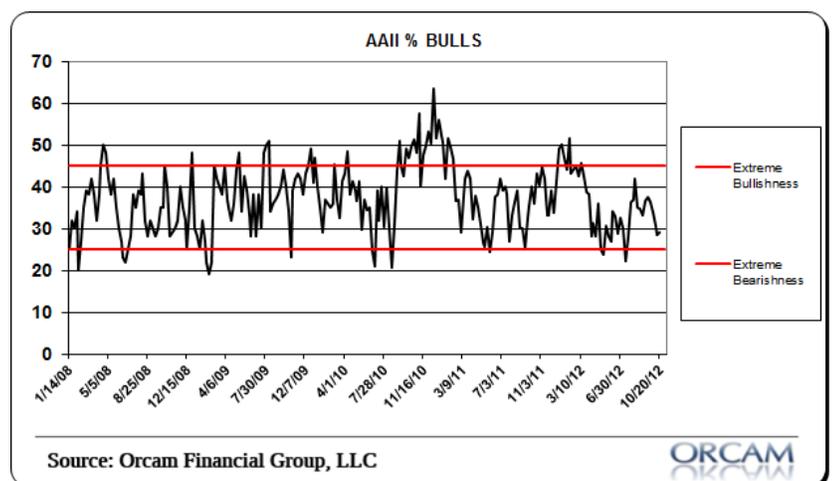


Figure 1—AAII Bullish %

a great deal about the investment landscape.

The Investor's Intelligence Survey is a survey of professional money managers issued weekly. While individual investors play an important role in the investment world, it is the money managers who make waves primarily. Almost 85% of all assets are managed by 15% of the entire world's banking and investment entities.

The most recent reading in this survey shows money manager sentiment that has moved to a much more neutral position from its extremes a few weeks ago, but is no longer signaling high levels of concern.

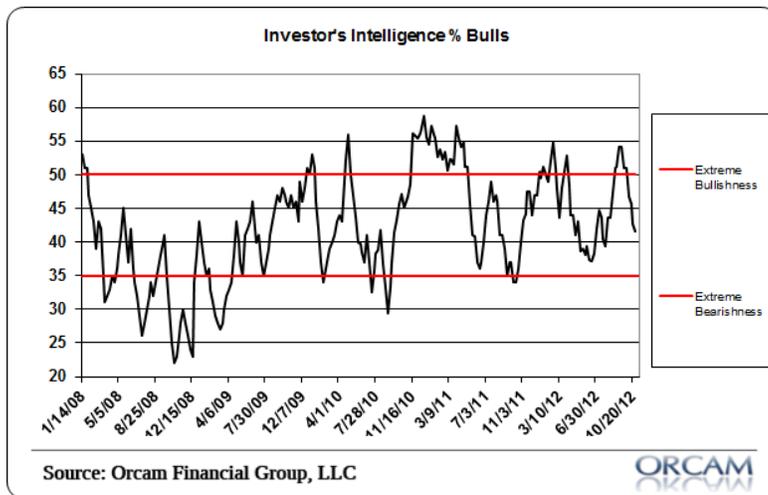
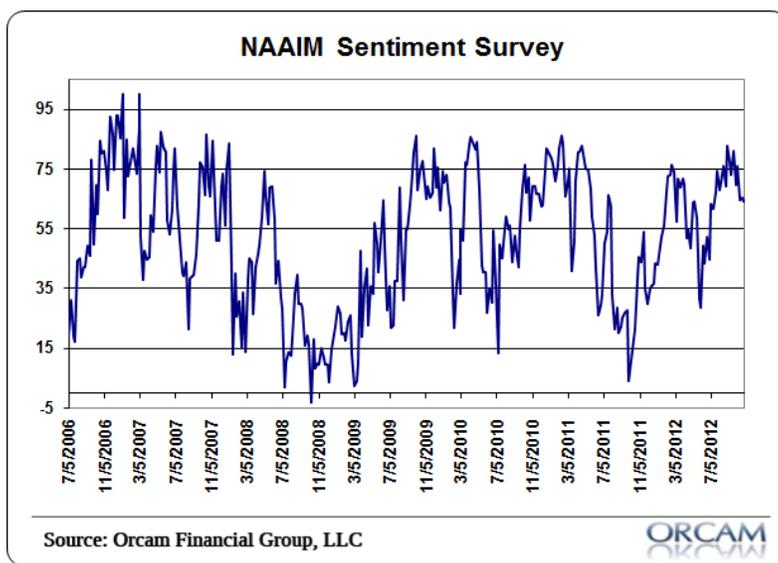


Figure 2—Investor's Intelligence Bullish %

The final weekly survey is the NAAIM Sentiment Survey. Like the II survey this is a survey of asset managers that broadens our perspective on the general view of the big money managers. The most recent readings are relatively elevated and show more concern than the II reading. This is consistent with the general complacency that we believe has existed since the most recent FOMC meeting. Investors have come to believe that fundamentals matter less than the power of the Fed's printing press. The resulting complacency helped drive prices to 1475 on the S&P, but has since seen a significant decline.

Overall, these updates don't provide us with an all encompassing view of the investment landscape, but provide important pieces of the puzzle. All in all, we find these indicators consistent with some remaining complacency in the equity markets.



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