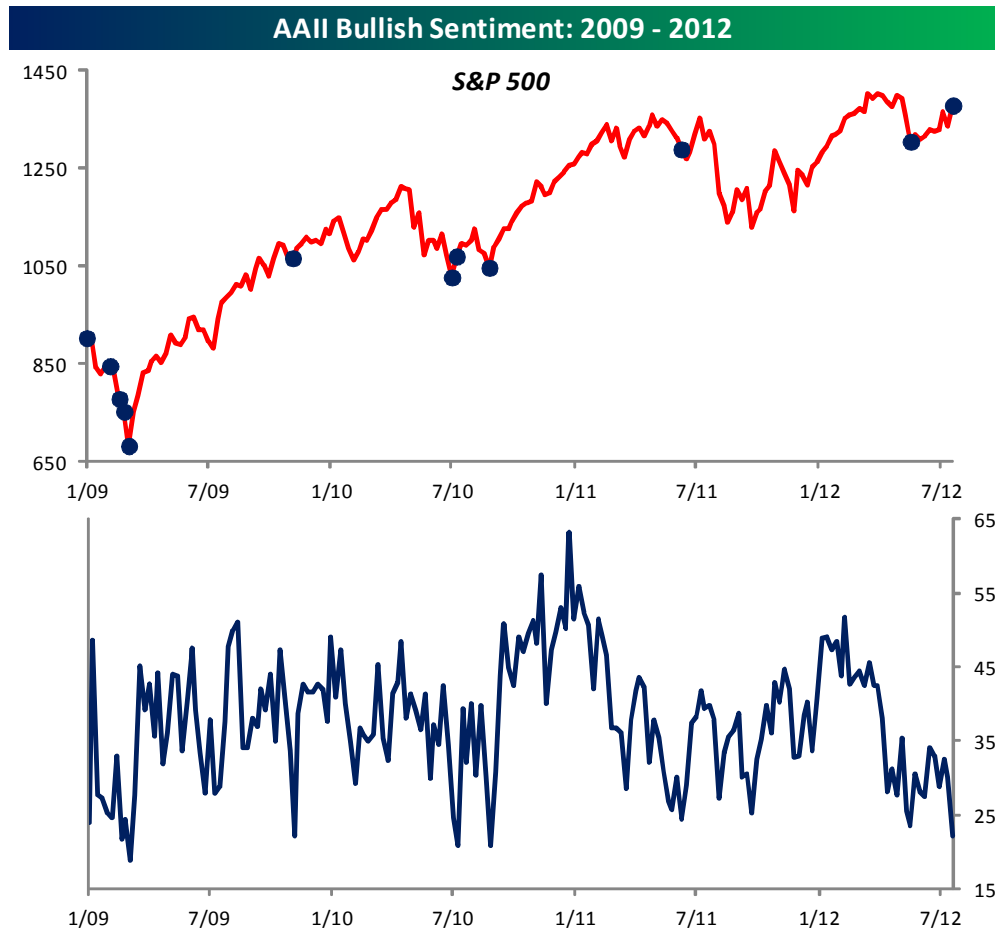


Individual Investor Sentiment Falls Off a Cliff

Bullish sentiment among individual investors fell more than eight percentage points this week, dropping to the lowest level since August 2010. According to the *American Association of Individual Investors (AAII)*, bullish sentiment dropped from 30.2% down to 22.19% for the largest weekly decline since April 12th. What makes this week's decline even more noteworthy is the fact that the big drop in bullish sentiment came in a week where the S&P 500 was up more than 2%.

The charts below show the S&P 500 (upper chart) and the weekly AAII bullish sentiment readings (lower chart) since the start of 2009. In the chart of the S&P 500, each blue circle represents weeks where bullish sentiment dropped below 25%. As shown, since the bull market began (March 2009), the S&P 500 saw at least a short term move higher following each of the prior occurrences. In fact, beginning with the 11/5/09 reading of 22.22%, the S&P 500 has averaged a gain of 4.96% with gains 100% of the time in the month following each week where bullish sentiment was less than 25%! *Continued on page two.*



The table below takes a longer term approach and summarizes the S&P 500's average performance following weeks where bullish sentiment falls within certain ranges of its historical average going back to 1987. For each range, we show the number of weeks where bullish sentiment was within that specific range as well as the S&P 500's average return one week, one month, three months, and six months after each reading. We also include the percentage of time the S&P 500 has been positive after each reading.

Going back to 1987, average bullish sentiment as measured by AAI has been 38.9% with a standard deviation of 10.6. Therefore, at a current level of 22.19% this week's reading falls into the range of more than one standard deviation below average. (shaded line). Looking at the table, in the 210 weeks since 1987 where bullish sentiment has been in the current range, the S&P 500 has averaged a gain of 0.34% in the following week with positive returns 59.2% of the time. Compared to all weeks since 1987, these readings are slightly above average.

Moving out over the next one, three, and six months, however, the average returns based on this level of bullish sentiment are nearly two times more than the historical average for all weeks since 1987. While there have been some arguments made recently that sentiment surveys are less important now than they were in the past, both long-term and more short-term history suggest that lack of bullish sentiment has been a positive for future short term returns in the equity market.

Average S&P 500 Performance Following Various Readings in AAI Bullish Sentiment: 1987 - 2012

Category	Occurrences	One Week		One Month		Three Month		Six Month	
		Avg Chg. (%)	Positive	Avg Chg. (%)	Positive	Avg Chg. (%)	Positive	Avg Chg. (%)	Positive
More Than 2 St. Dev. Below	16	-0.31	50.0	0.53	56.3	6.90	100.0	14.4	100.0
More Than 1 St. Dev. Below	210	0.34	59.2	1.67	68.7	3.34	75.4	7.1	78.7
Less Than 1 St. Dev. Below	427	0.13	56.9	0.55	62.3	1.81	65.8	4.0	67.9
Less Than 1 St. Dev. Above	441	0.05	55.1	0.30	57.6	1.57	63.3	3.6	70.7
More Than 1 St. Dev. Above	165	0.18	52.1	-0.19	53.3	0.32	60.0	0.9	66.1
More Than 2 St. Dev. Above	43	0.26	60.5	0.33	60.5	0.09	55.8	-0.1	51.2
Average All Weeks	1,302	0.14	56.1	0.55	60.5	1.79	65.8	3.9	70.2
<i>Historical Average</i>		38.9							
<i>Standard Deviation</i>		10.6							