

Contrarian analysis of market timer sentiment in the stock, gold and bond markets

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About Hulbert Ratings

- The Hulbert Financial Digest has been tracking investment newsletters since June 1980—more than 40 years ago
- I sold the newsletter in 2002 to CBS MarketWatch, which in turn was bought by Dow Jones in 2005. Dow Jones shut down my newsletter in 2016
- Since then I have continued to monitor newsletters under a different business model—one in which newsletters pay a flat fee to have us calculate and report their returns. My company is Hulbert Ratings LLC.
 - The resultant track records are available free of charge to the public at www.HulbertRatings.com

Our performance scoreboards

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Performance over the trailing 12 months through 1-31-2021

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Blue Chip Investor, The	Newsletter Average	-0.28%	9.99	0.05
Blue Chip Investor, The	The Quality Growth Account	-0.28%	9.99	0.05
Bob Brinker's Marketimer	Newsletter Equity Portfolio Average	19.50%	7.29	0.24
Bob Brinker's Marketimer	Portfolio I: Aggressive Growth Mutual Fund Portfolio	18.97%	7.23	0.24
Bob Brinker's Marketimer	Portfolio II: Long-Term Growth Mutual Fund Portfolio	18.54%	7.14	0.23
Bob Brinker's Marketimer	Portfolio III: Balanced Portfolio	11.34%	3.90	0.25
Bob Brinker's Marketimer	Income Portfolio	4.14%	1.18	0.28
Bob Brinker's Marketimer	Active/Passive Portfolio	21.00%	7.50	0.25
BuySellDoNothing.com	Buy&Hold: Quarterly invest Equal-Weight in 20 Divid Grwth stks	17.59%	9.05	0.20
Buyback Letter, The	Newsletter Average	23.33%	8.39	0.25
Buyback Letter, The	Buyback Dogs Portfolio	29.59%	8.26	0.30
Buyback Letter, The	Buyback Income Index	6.47%	12.55	0.11
Buyback Letter, The	Buyback Index	21.66%	10.03	0.21
Buyback Letter, The	Buyback High-Tech Index Portfolio	20.98%	8.98	0.22

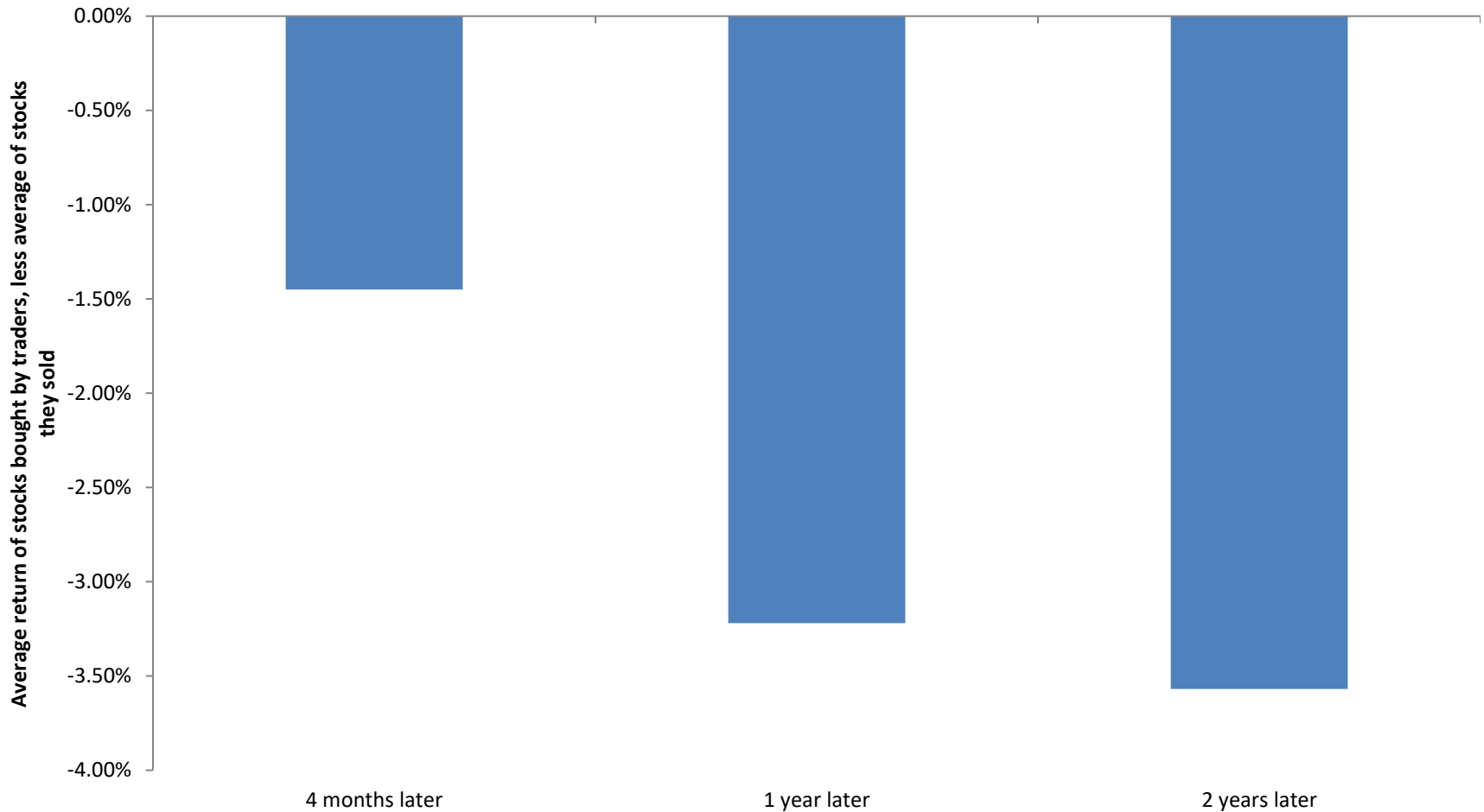
My interest in sentiment...

- It soon became clear that short-term market timers were very bullish at the market tops and very bearish at market bottoms
- This is exactly what contrarian analysis would have predicted

Sentiment is needed to explain advisers' poor track record

- Investment advisers' performance is worse than you'd expect on the basis of pure randomness
- In other words, transaction costs alone cannot explain their average negative alpha

How else to explain the following?



Source: UC Berkeley Professor Terrence Odean, based on trading histories of 64,000 accounts at a discount brokerage firm

Could this insight be exploited?

- Contrarian analysis all too often has been used as an excuse for sloppy thinking
 - *Magazine cover indicator*
- For contrarian analysis to even possibly be of value, it's important to have an objective measure of sentiment

How the Hulbert Sentiment Indices are calculated

- In contrast to most other sentiment measures, the Hulbert Sentiment Indices focus on what advisers are doing, as opposed to what they are saying
- We do this by calculating the average recommended exposure levels every day in the stock, gold and bond markets
- If just two newsletters were included in an index and one was 100% long and another 50% short, our index would be +25%
 - *That's the average of +100% and -50%*

The Four Hulbert Sentiment Indices

- Hulbert Stock Newsletter Sentiment Index
 - HSNSI
- Hulbert NASDAQ Newsletter Sentiment Index
 - HNNSI
- Hulbert Gold Newsletter Sentiment Index
 - HGNSI
- Hulbert Bond Newsletter Sentiment Index
 - HBNSI

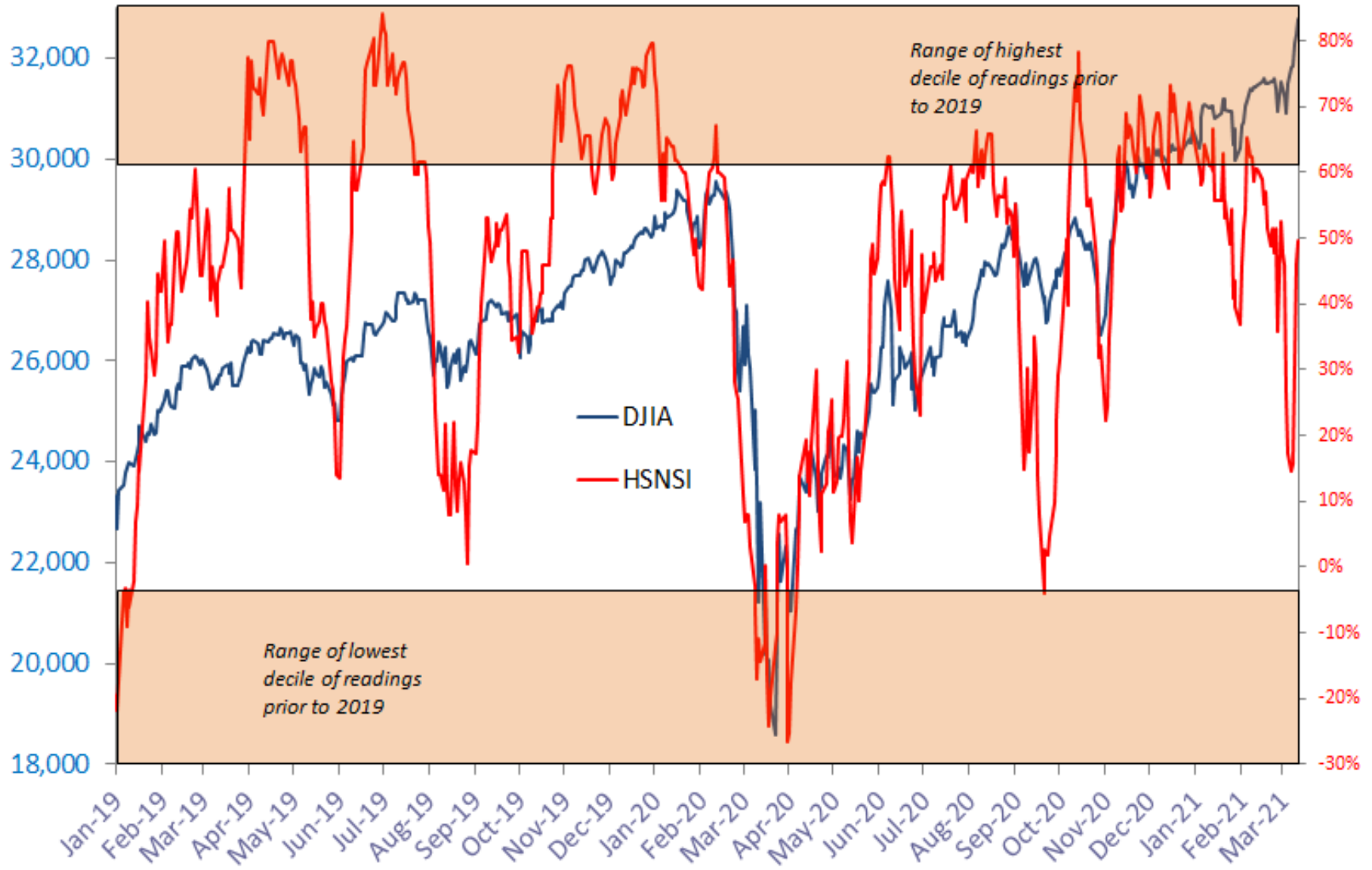
How to interpret the Hulbert Sentiment Indices

- Following standard contrarian analysis
 - Extreme bullishness is a bad sign
 - Extreme bearishness is a good sign
 - Stubbornly-held positions are especially significant
 - *That is, extreme bullishness in the face of a market pullback is a bad sign, while extreme bearishness in the face of a rally is a good sign*

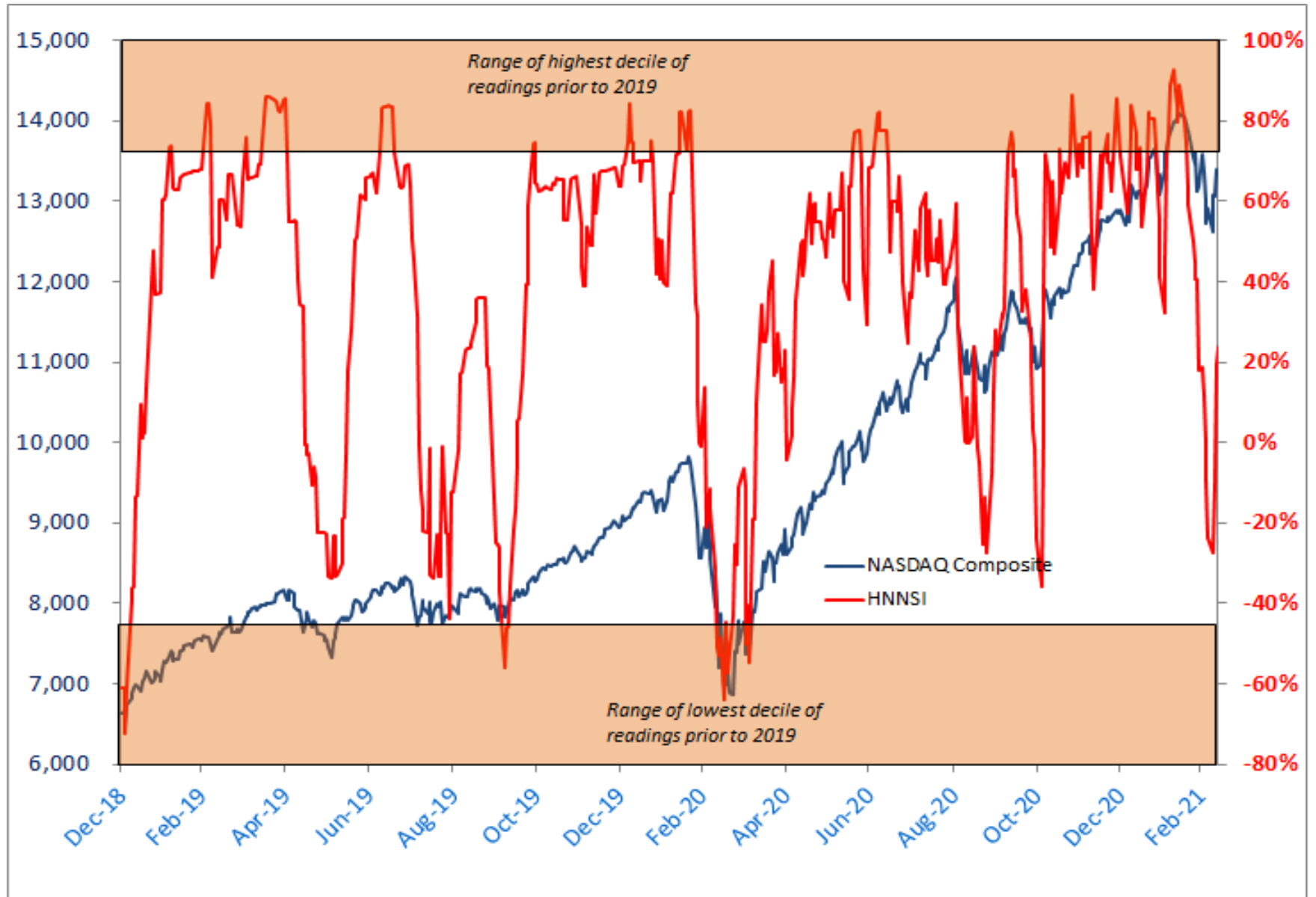
The Hulbert Sentiment Indices in real time

- Each of the following four charts plots a different Hulbert Sentiment Index over the past two years
- Each chart shows the range of highest and lowest decile readings from 2000 up until the beginning date of the chart
 - *This was done to insure that that the charts are not guilty of hindsight bias*
 - *In each case, notice that (on average) the market struggled following extreme high readings and rose following extreme low readings*

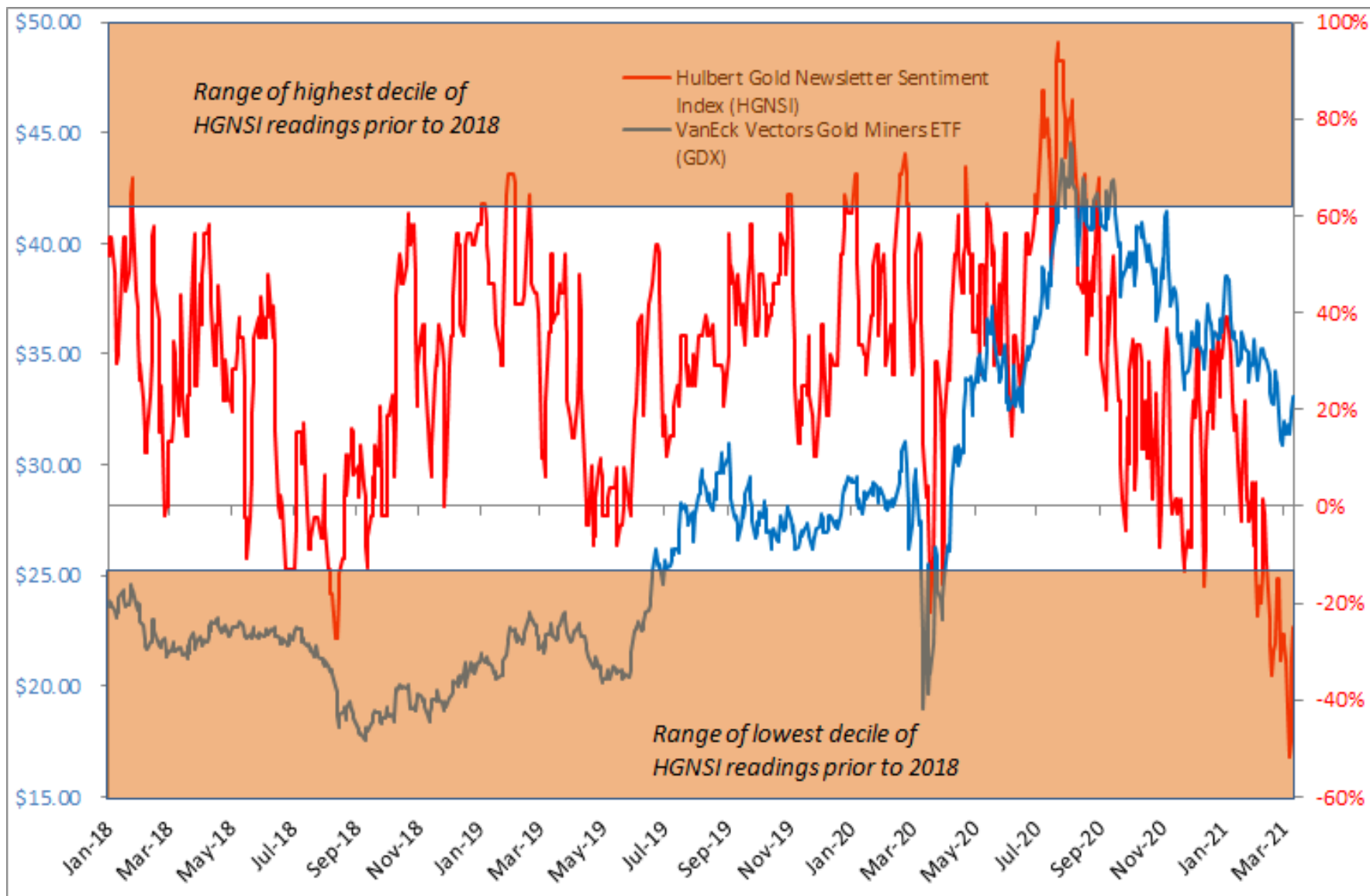
Hulbert Stock Newsletter Sentiment Index



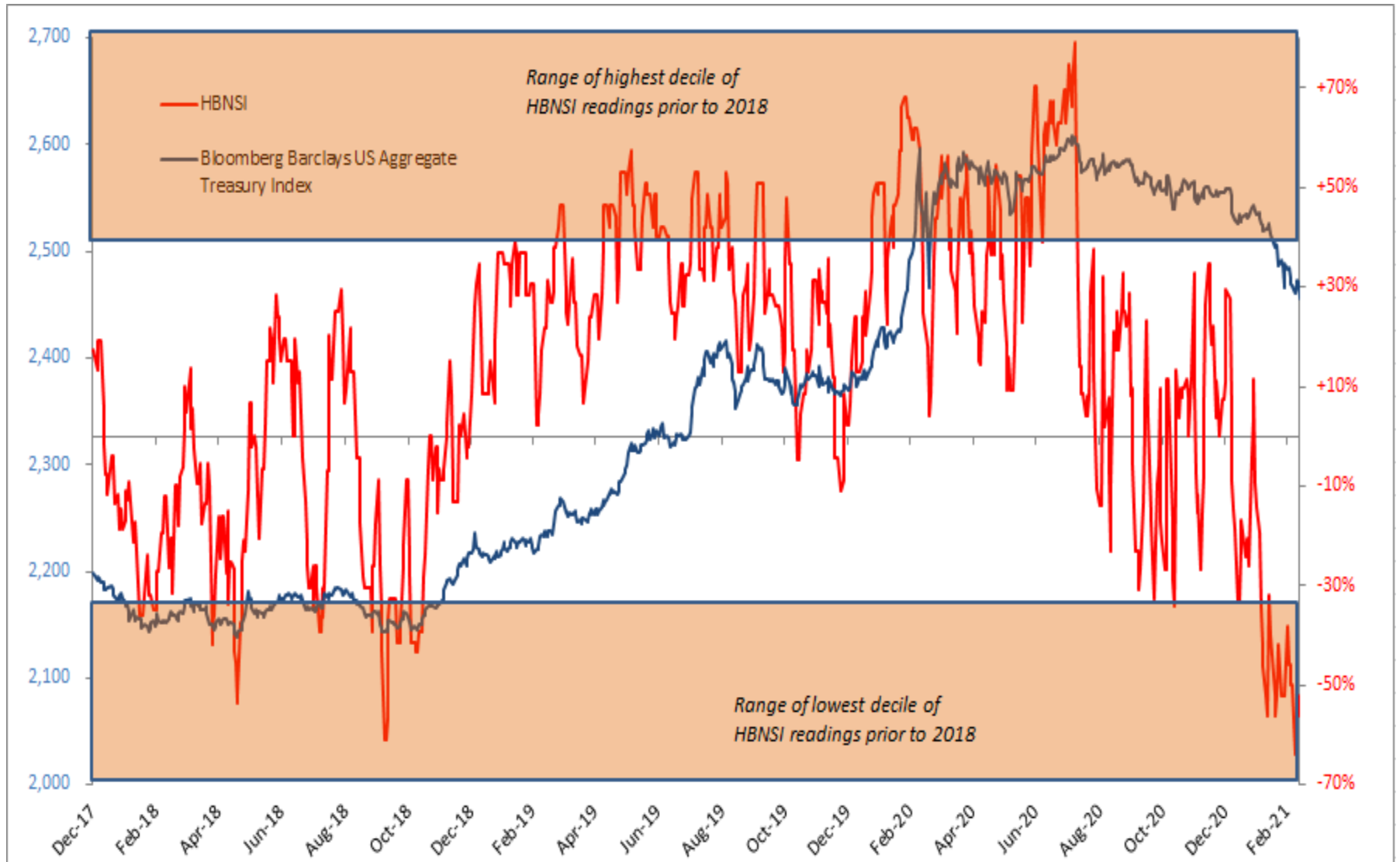
Hulbert Nasdaq Newsletter Sentiment Index



Hulbert Gold Newsletter Sentiment Index



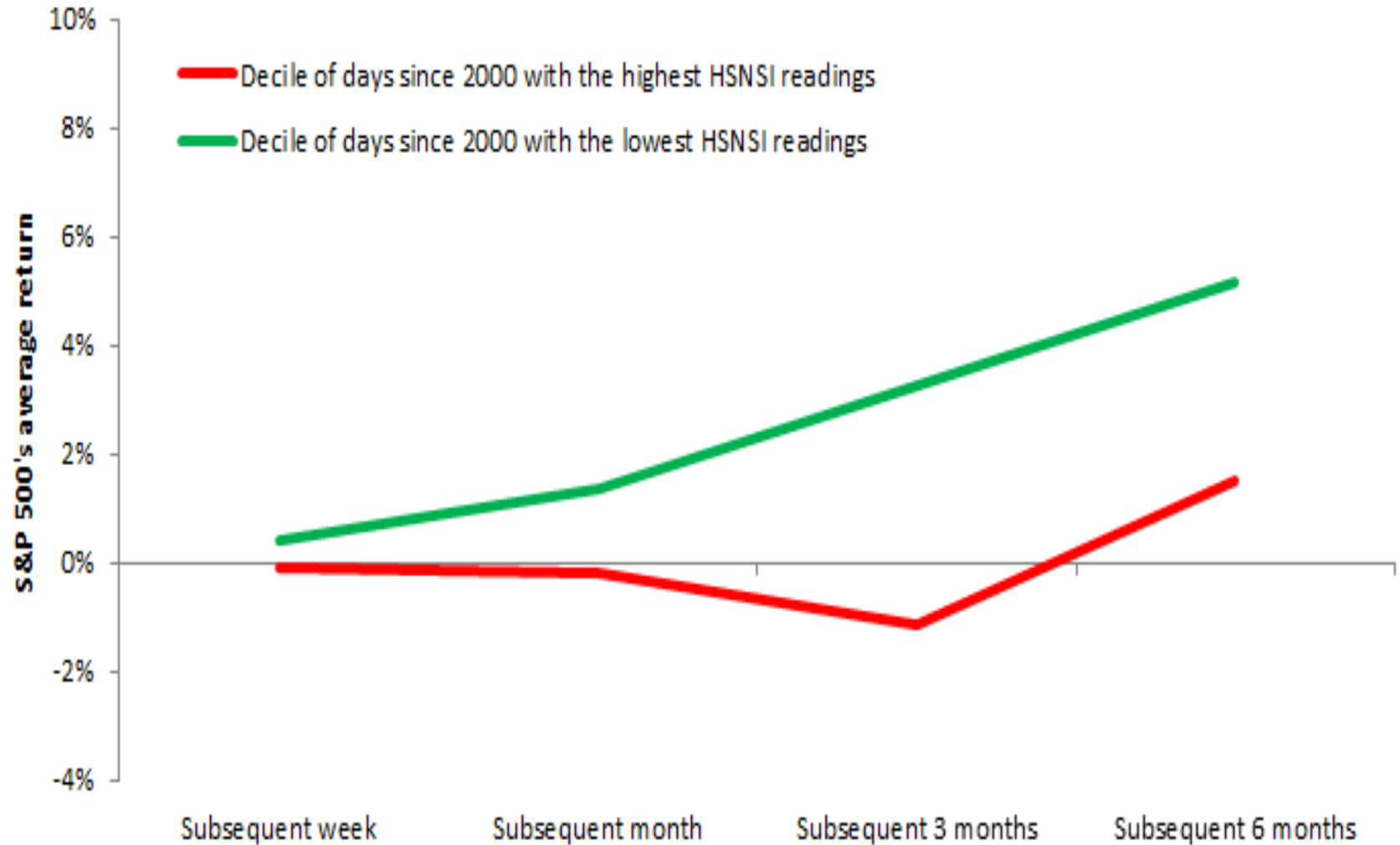
Hulbert Bond Newsletter Sentiment Index



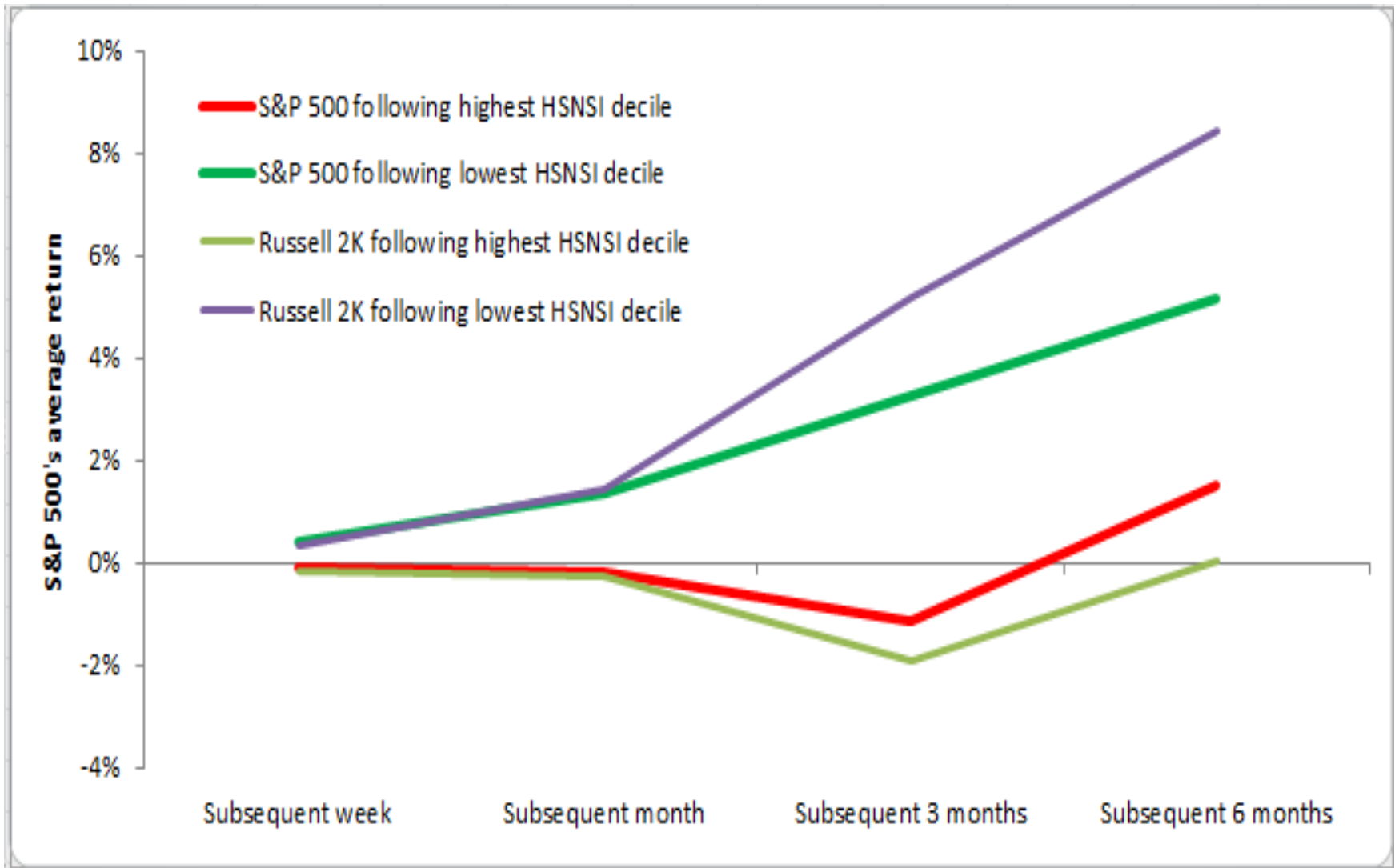
Track records

- Each of the following charts shows the average performance of the market following highest and lowest decile sentiment index readings
- Notice the time horizon over which sentiment has the greatest explanatory power

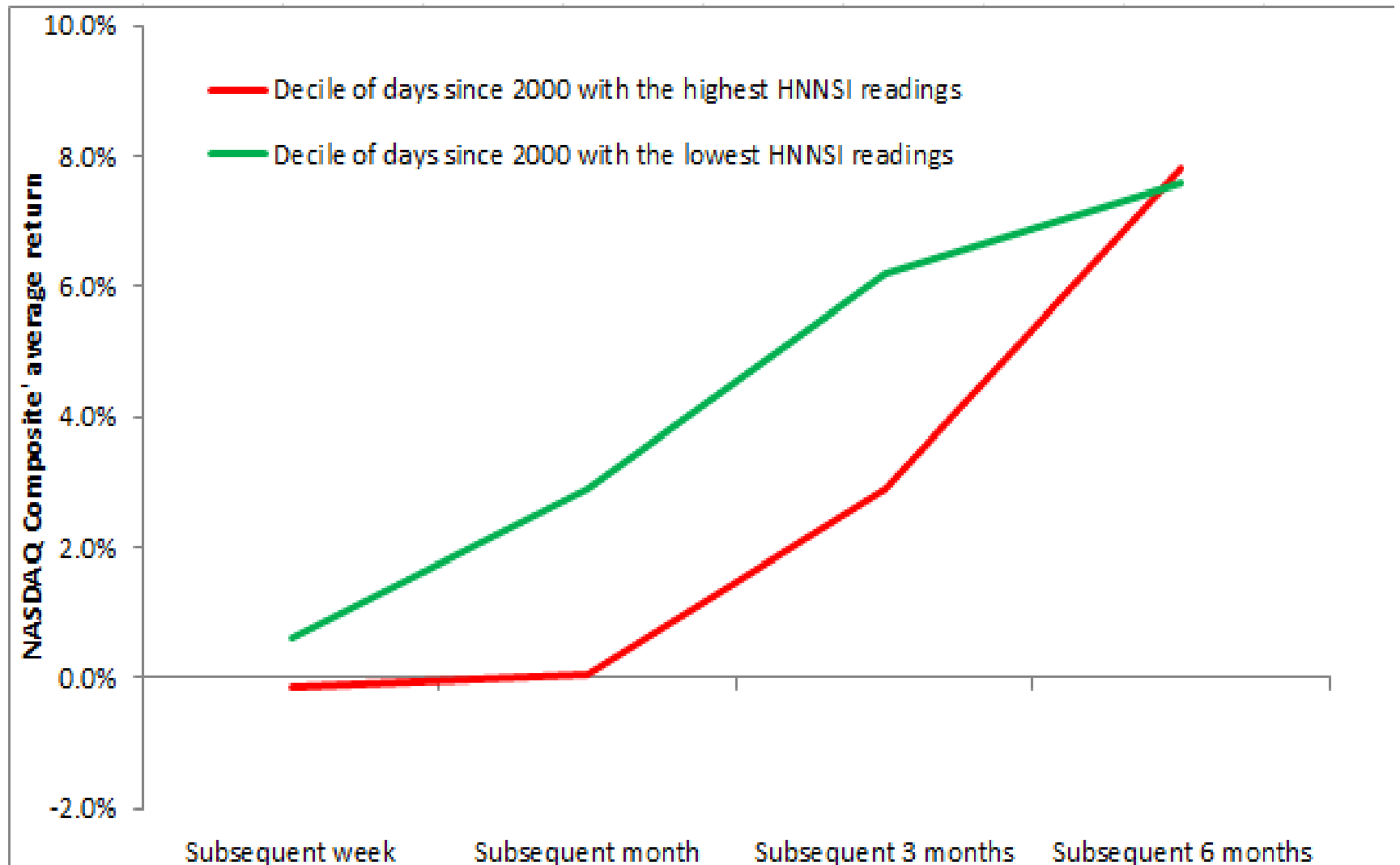
HSNSI versus S&P 500



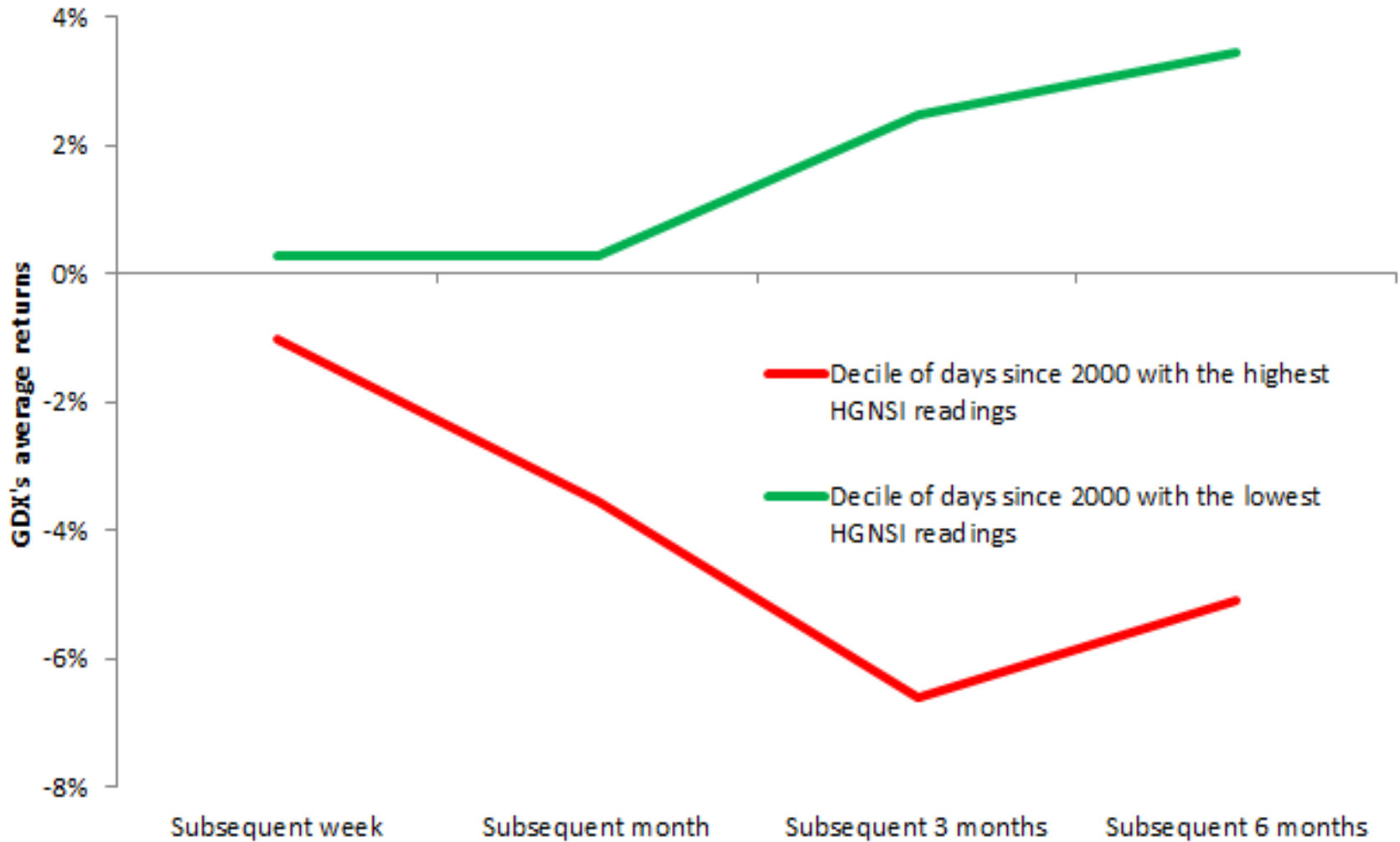
HSNSI vs. S&P 500 & Russell 2K



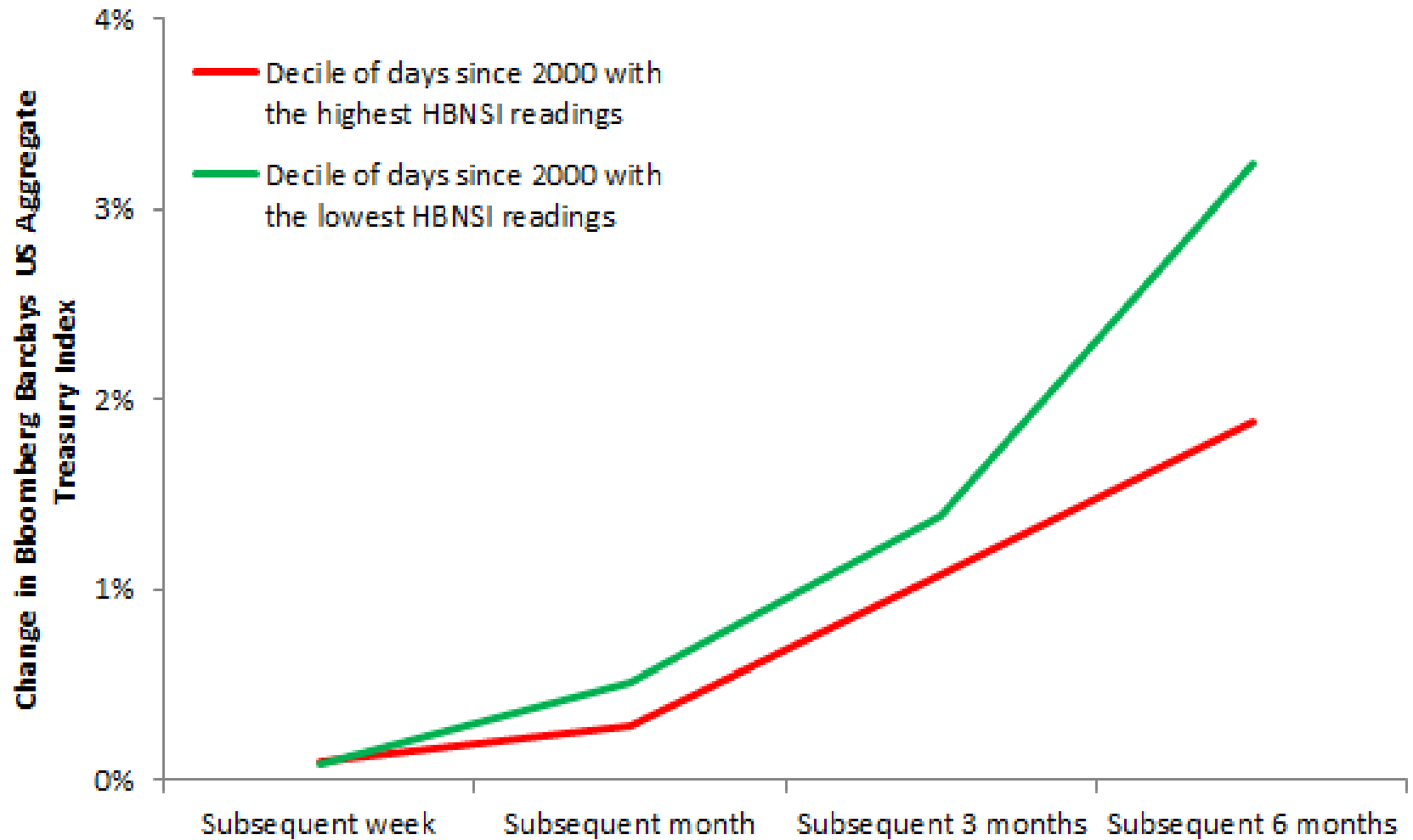
HNNSI versus Nasdaq Composite



HGNSI versus GDX (Gold Miners ETF)



HBNSI versus US Treasury market



For more information

- Go to the Hulbert Ratings website
 - www.HulbertRatings.com
 - Email me at mark@hulbertratings.com
 - Read my periodic investment columns at:
 - *MarketWatch*
 - *Barron's*
 - *Wall Street Journal*
 - *TheStreet.com*
 - *Callaway Climate Insights*