

## Equity Strategy

### November 2013 Chart of the Month

- **The Panic/Euphoria Model is sending a clear warning sign of substantial complacency.** The investment community's mindset is widely monitored and investors anecdotally have become more bullish in conversations and meetings looking to an expected traditional late-year seasonal rally, despite a better than 20% move year-to-date. Citi's proprietary sentiment tracker now has climbed to about its highest level since 2008 and it is approaching euphoria territory, which is worrisome.
- **Money flows of late have shown that the individual investor is coming back into equities.** Mutual fund flows and exchange traded fund flows have turned more clearly positive recently, reflecting a real shift in people's willingness to take on stock market risk. However, they are doing so after the S&P 500 has tacked on more than 1,000 points since the lows of March 2009. Moreover, the Value Line Arithmetic Index has quadrupled over the same time frame, suggesting that there is a bull chase going on.
- **The model historically has been a very respectable market performance indicator.** The last time, Panic/Euphoria was in this area, which occurred in May, the market slid 3%-4% shortly thereafter. It is important to recognize that while euphoria readings have not been registered, there is still about an 80% probability of a market decline in the next 12 months based on the current reading. And, while the Raging Bull thesis remains intact for a secular bull market in stocks over the next few years, one has to respect gauges that have proven to be a reliable indicator of nearer-term share price movement.

Tobias M Levkovich

+1-212-816-1623

tobias.levkovich@citi.com

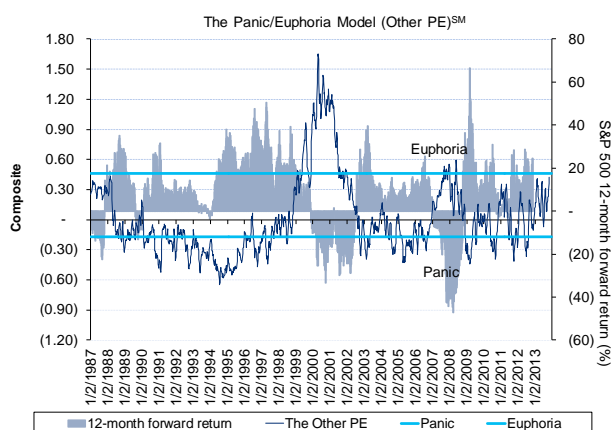
Lorraine M Schmitt

lorraine.m.schmitt@citi.com

Christina Wood

christina.wood@citi.com

Figure 1.



Source: Haver Analytics and Citi Research – US Equity Strategy

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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