

How Sentiment Can Impact Your Portfolio

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See the Signals. Avoid Mistakes.™

NDR uses the weight of the evidence and a 360° approach to build up to market insights and calm investors in a world full of bull/bear news hype and hysteria. When we say “evidence,” we mean data from more than 200 vendors, with some data series that go back over 100 years to fuel a historical perspective and build proprietary indicators and models. We believe that no client is too big or too small to benefit from NDR’s insights.

In 1980, Ned Davis founded a new investment research group based on his fundamental belief that making money was more important than being right. Today, we are widely recognized for concise commentary and unbiased views. NDR is headquartered in Venice, Florida, with offices in Atlanta, Boston, London, Hong Kong, and San Francisco.

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The NDR Philosophy

A 360° approach

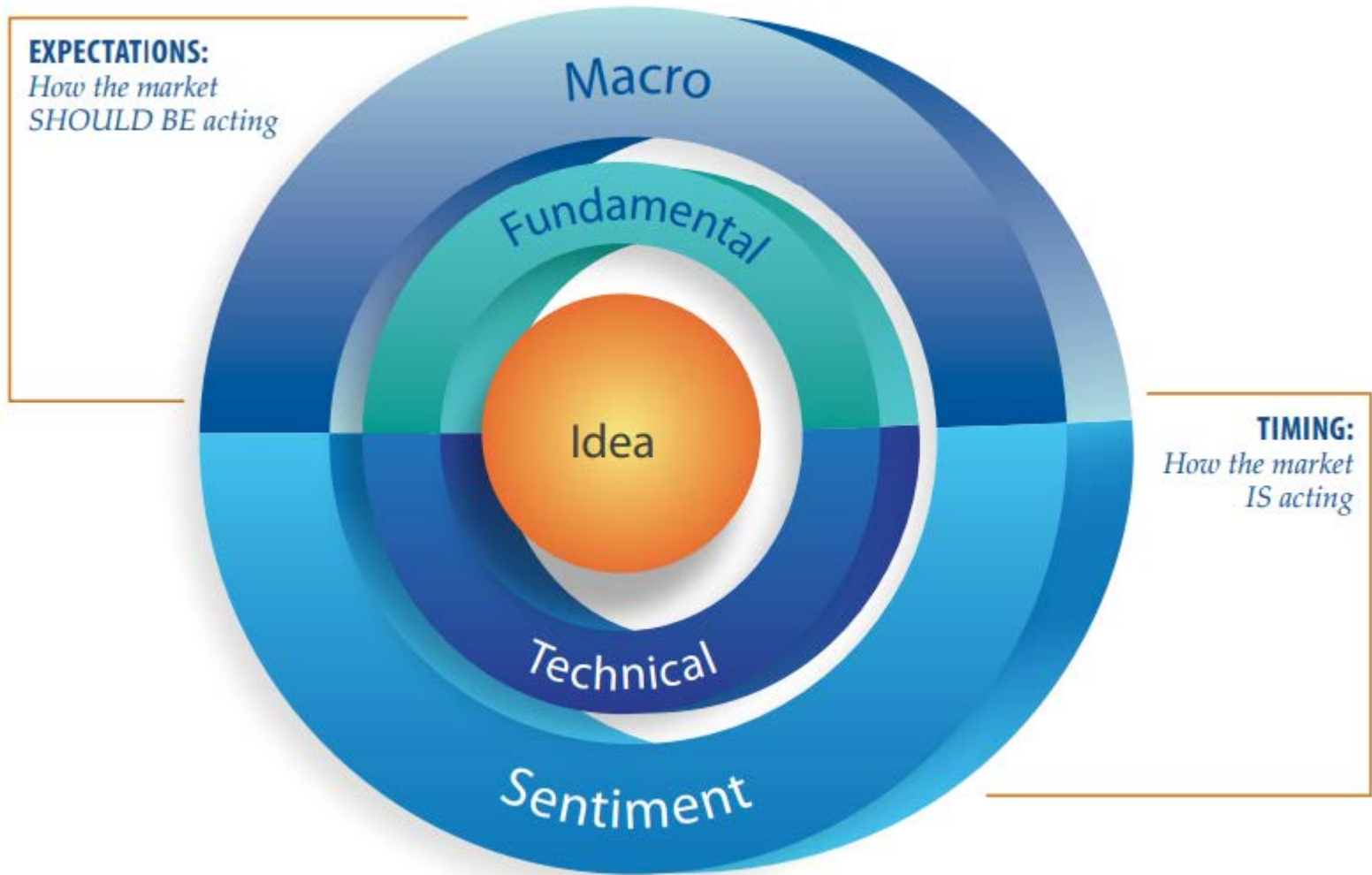
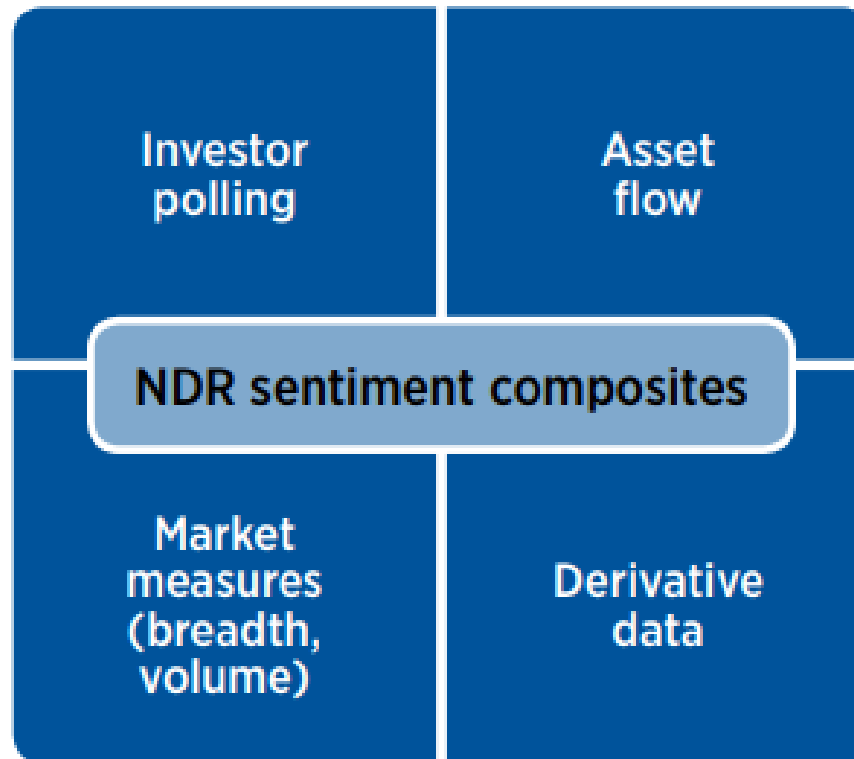


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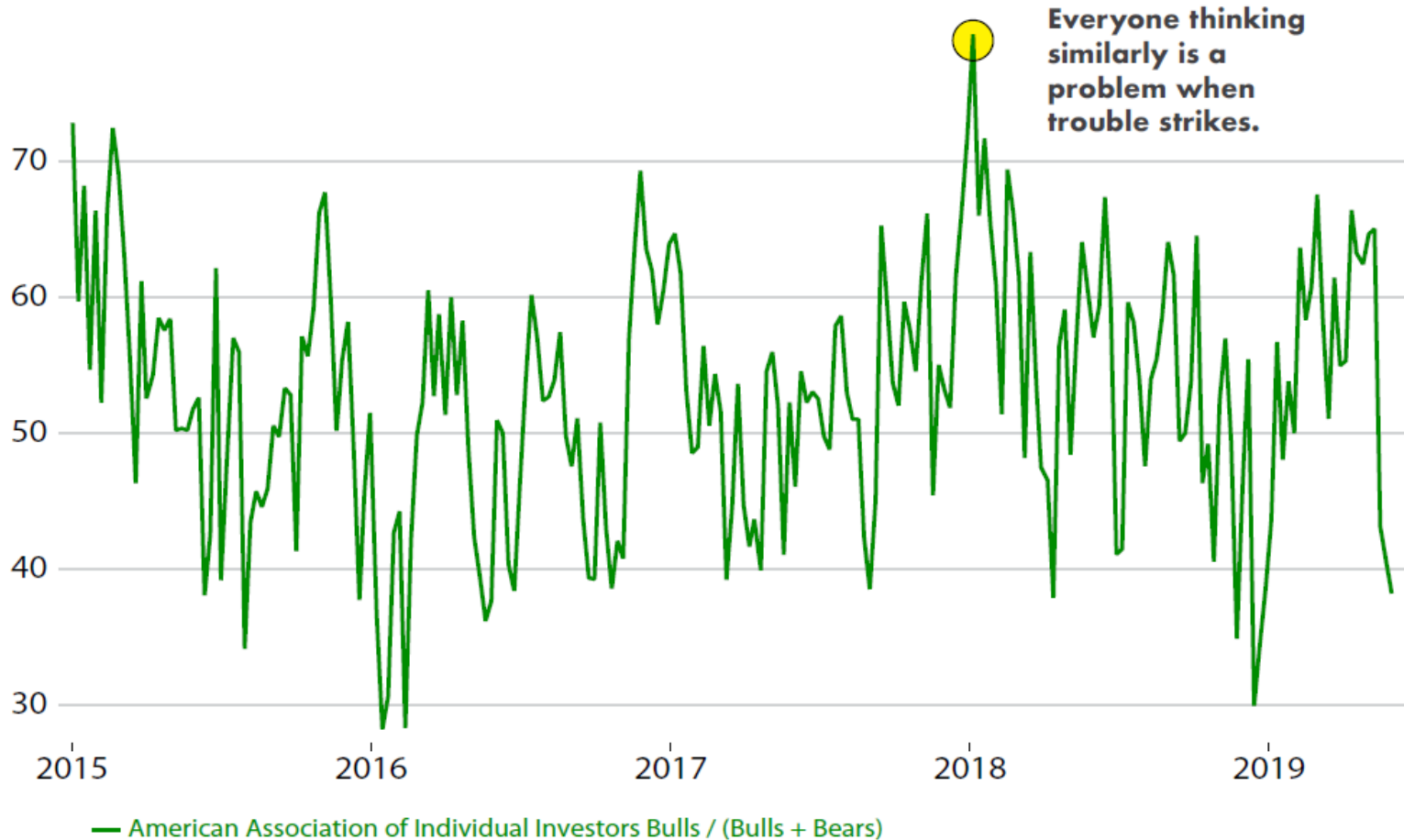
Ways to Measure Sentiment



Investor Polling Example

Bullish or bearish outlook for stocks

Surveys help measure investor sentiment

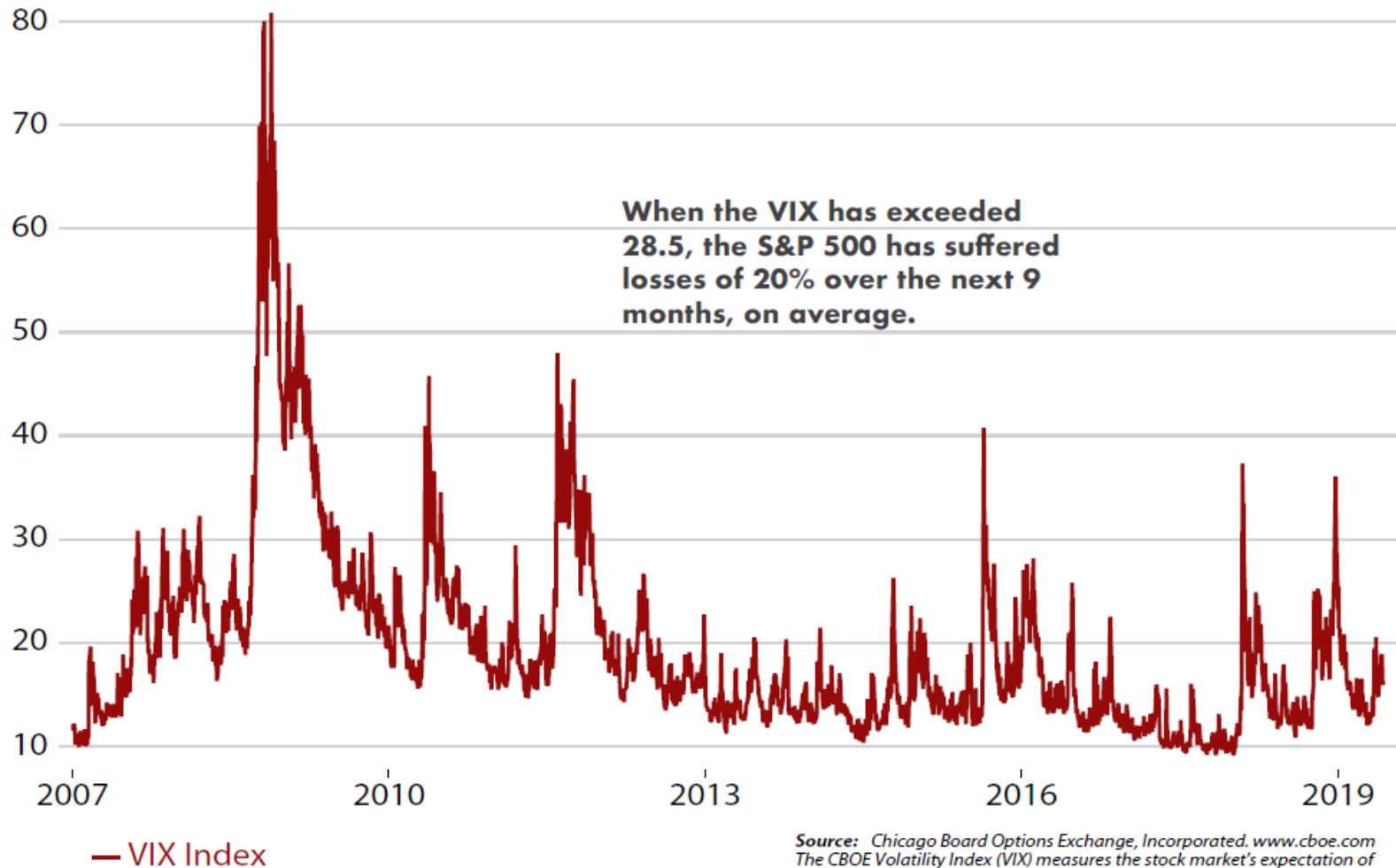


Source: American Association of Individual Investors (AII)
The AII sentiment indicator is based on a weekly survey of 125 individual investors who are asked whether they are bullish or bearish on the direction of the market over the next six months.

Market-Based Example

VIX = Fear Index

The VIX gauges investor fear

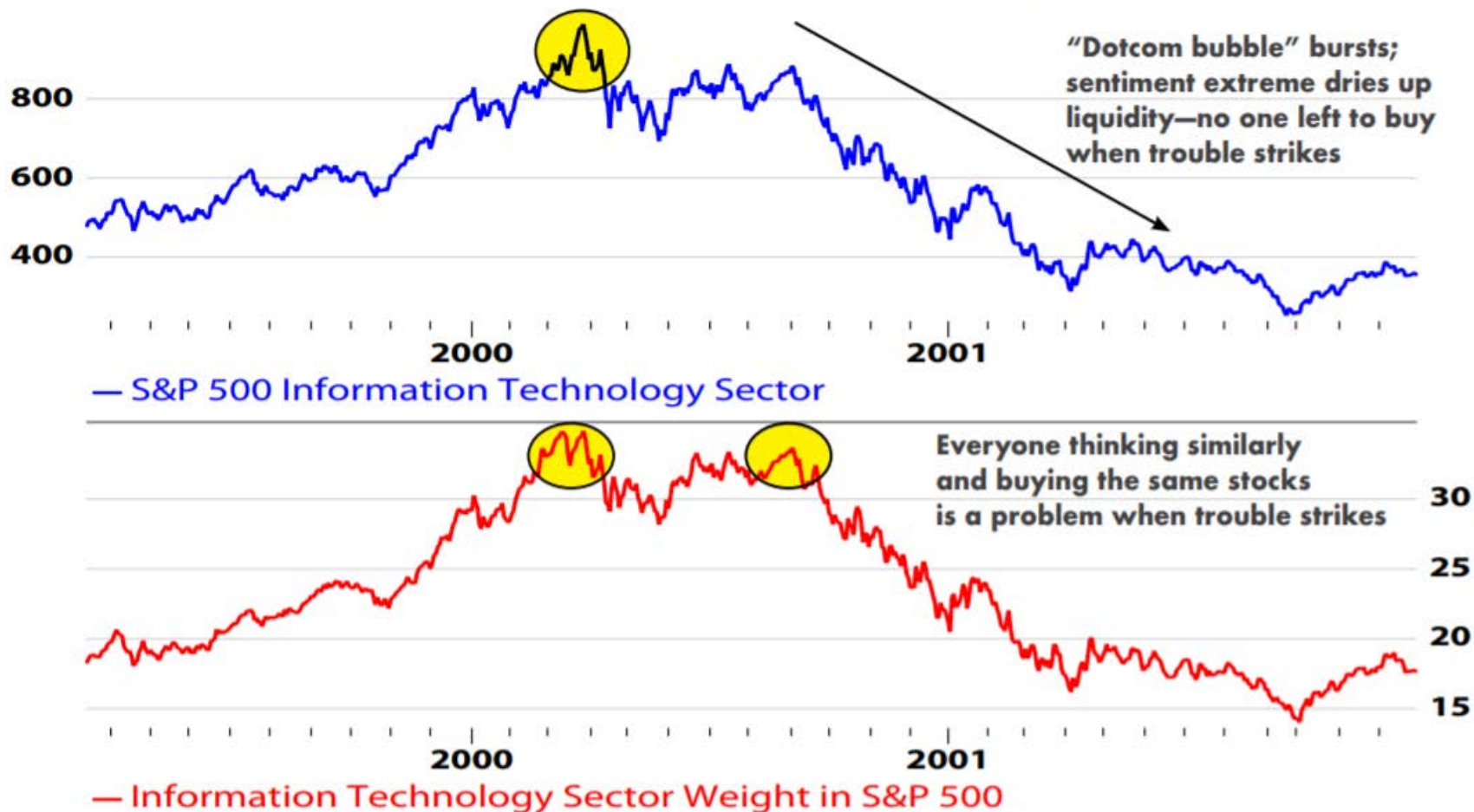


Source: Chicago Board Options Exchange, Incorporated. www.cboe.com
The CBOE Volatility Index (VIX) measures the stock market's expectation of future volatility.

Asset Flow Example

Excessive flows into the Tech sector created the “dotcom bubble”

Excessive asset flows increase risk when things go wrong

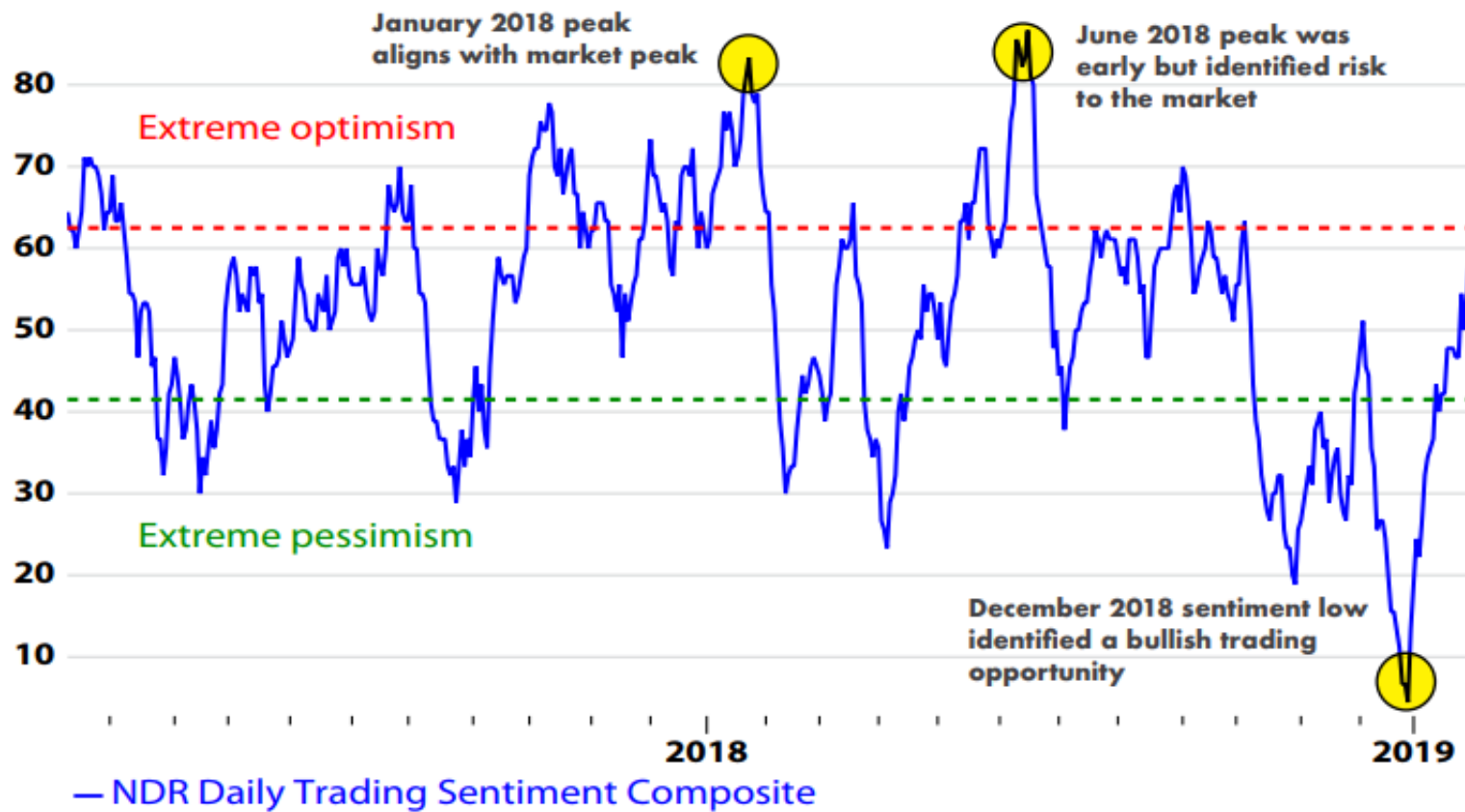


Source: S&P Dow Jones Indices

Techniques to Improve Sentiment Analysis

Develop sentiment composites

Combining indicators reduces risk and builds a balanced sentiment perspective



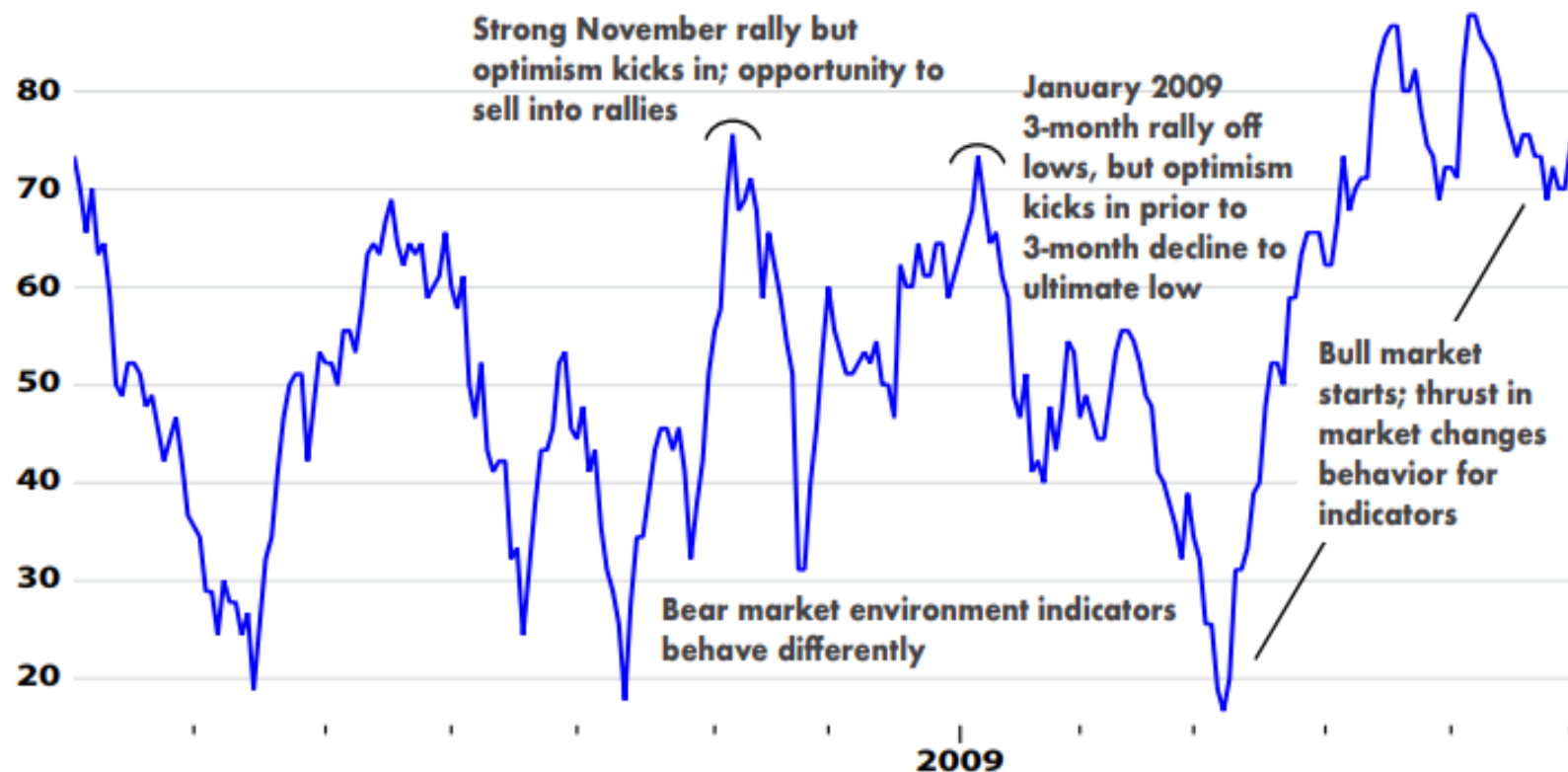
Source: Ned Davis Research, Inc.

**Past performance is not a guarantee of future results.*

Techniques to Improve Sentiment Analysis

Look at historical and recent behavior

Adjusting sentiment relative to its own recent environment improves value of the indicator



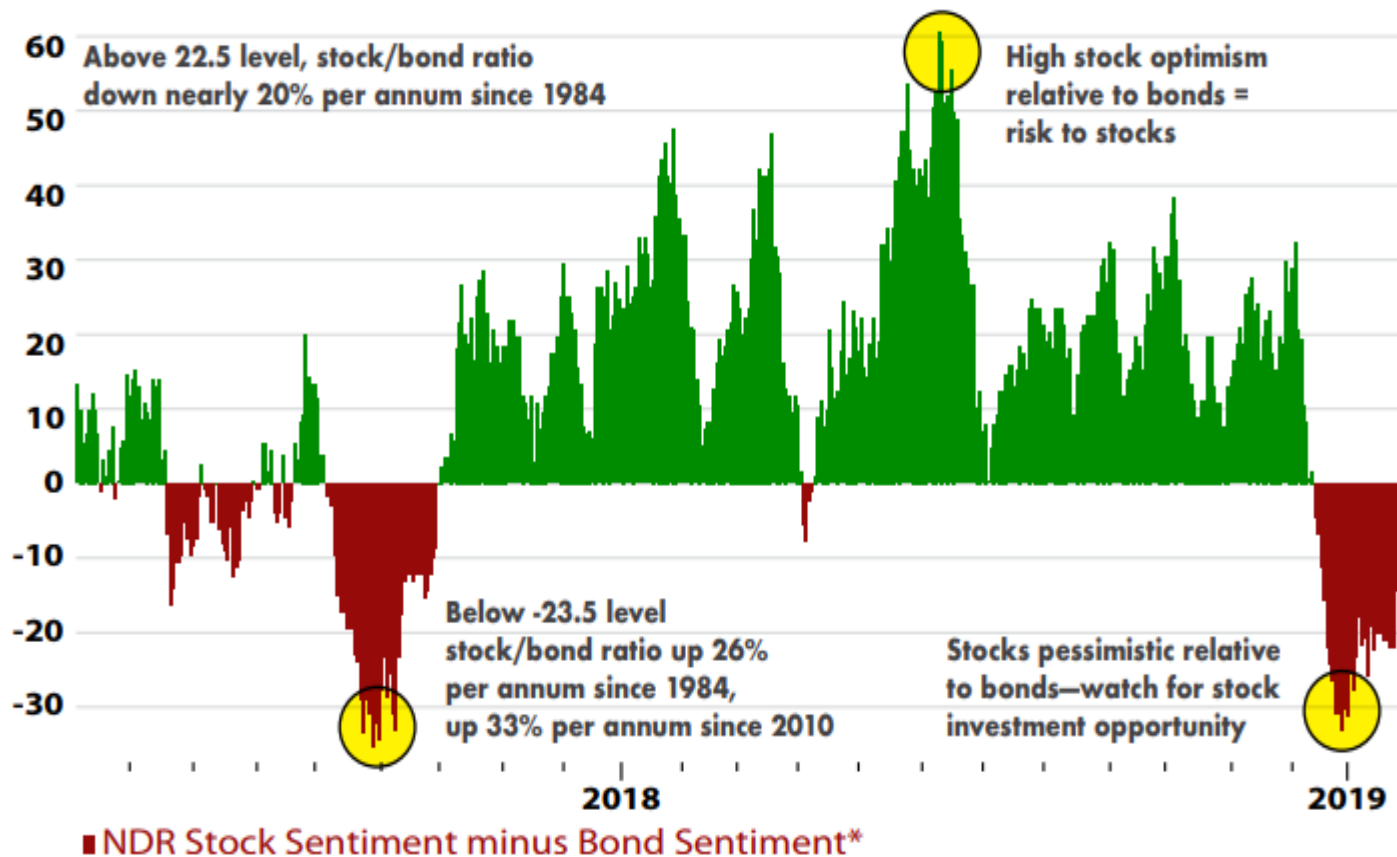
— NDR Daily Trading Sentiment Composite

Source: Ned Davis Research, Inc.

Techniques to Improve Sentiment Analysis

Compare different asset classes

Stock vs. bond sentiment can signal peaks and troughs in the market



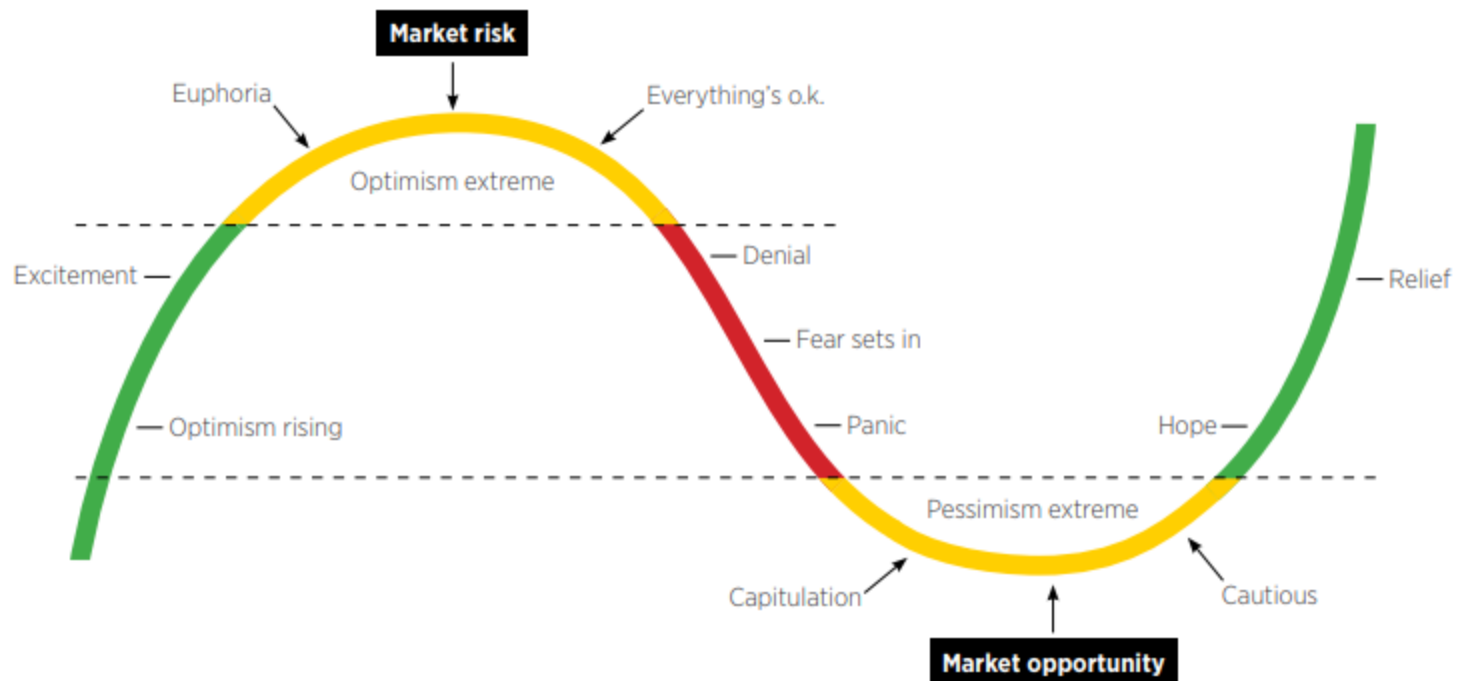
* NDR Daily Trading Sentiment Composite minus NDR Daily Bond Sentiment Composite

Source: Ned Davis Research, Inc.

The Cycle of Market Sentiment

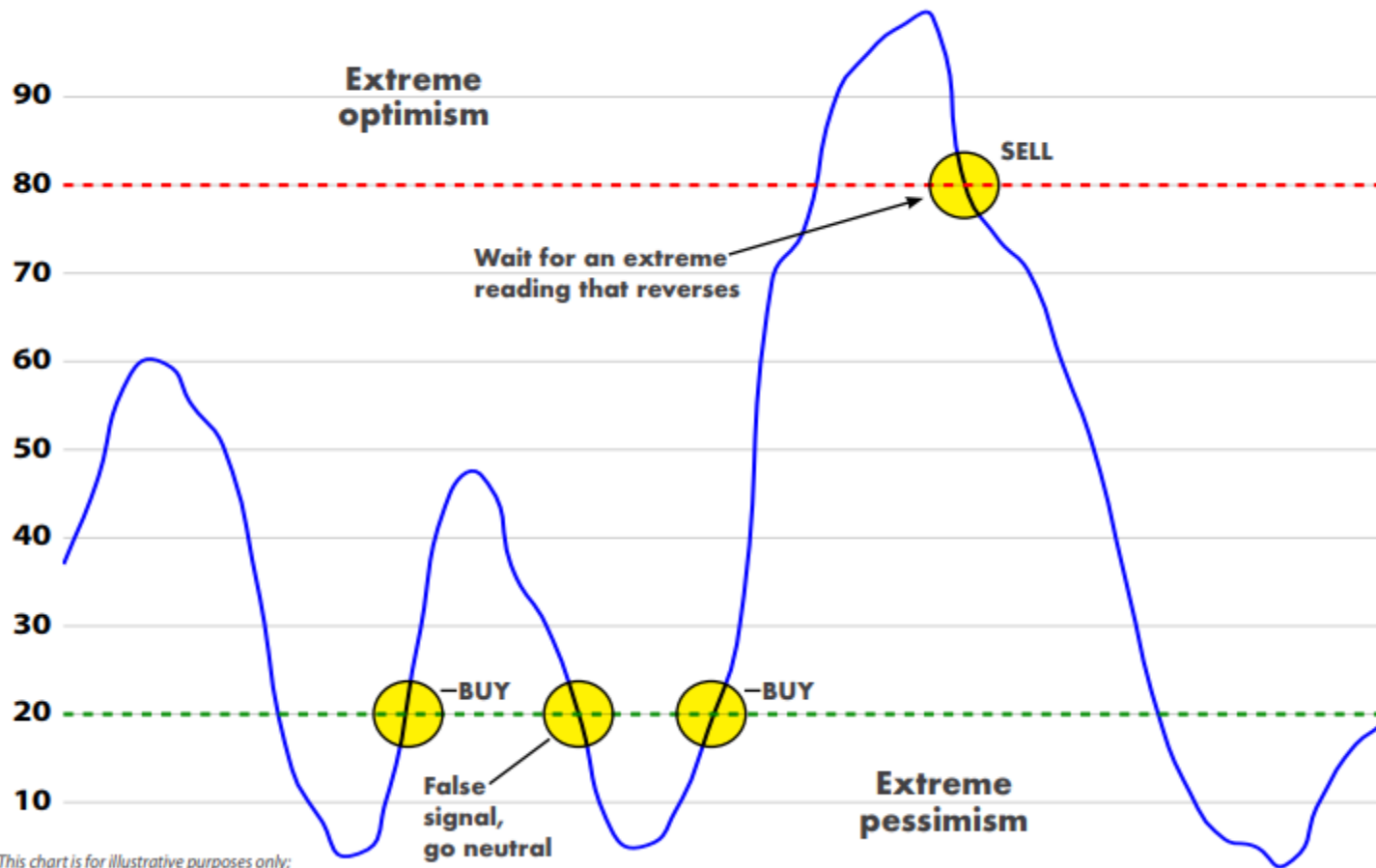
Human behavior is a key driver to investment performance

Fear, greed and hope are constant factors in stock market trends



Beware of the Crowd at Extremes

Crowd emotion rolls from greed to fear—beware at extremes



This chart is for illustrative purposes only; not an NDR indicator or model.

Sentiment is Just One Piece of the Puzzle

Macro, fundamentals, and technicals also matter.

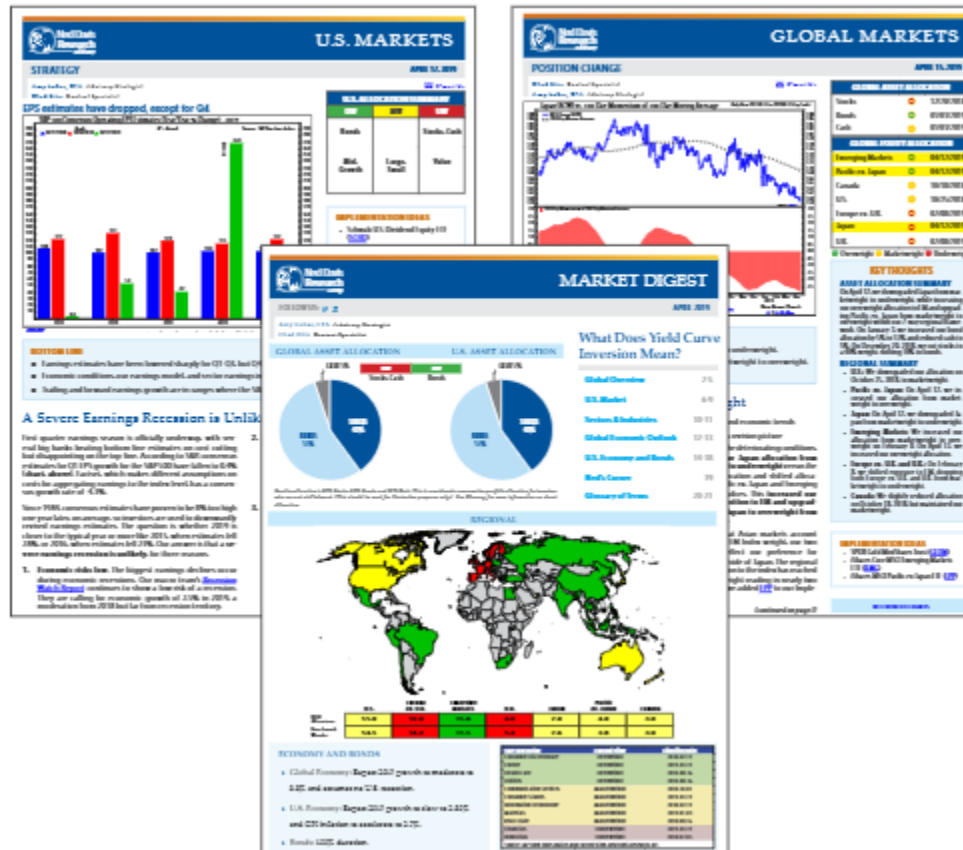


Key Takeaways

- Emotions can cause an investor to take the wrong action.
- Beware of the crowd at extremes.
- Peaks and reversals in sentiment can often (but not always) identify opportunities.
- NDR's breadth in data analysis allows us to assess and use market sentiment effectively.
- Sentiment is only one piece of the puzzle in creating an investment strategy.
- Incorporate macro, fundamentals, and technicals too.

Thank you!

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