Market Update: A Different View of the ISEE

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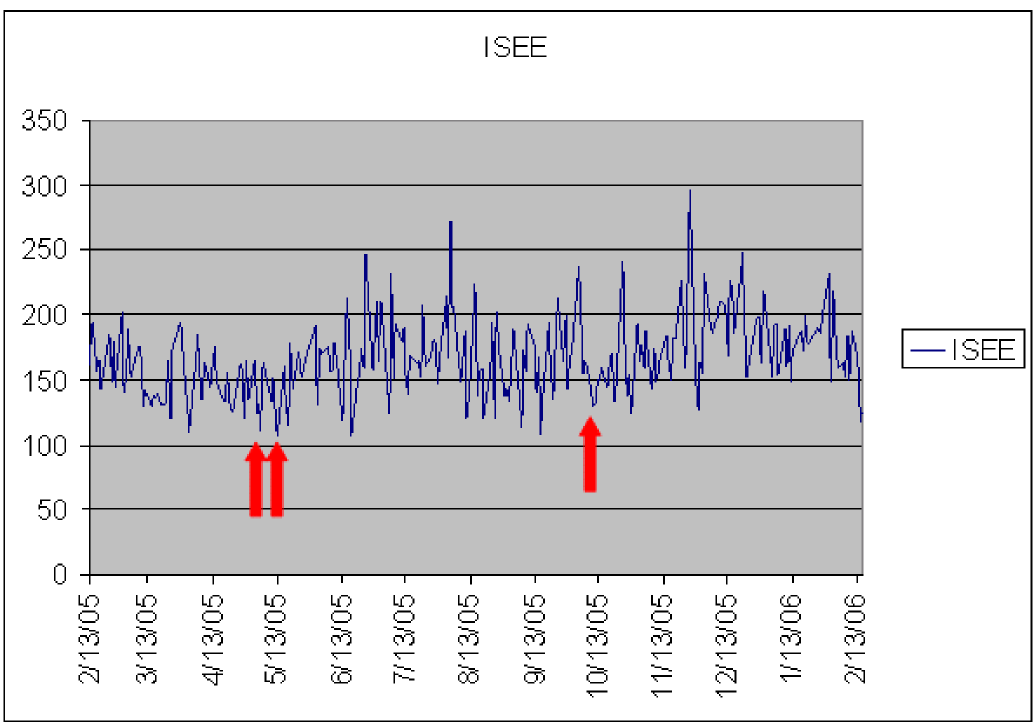
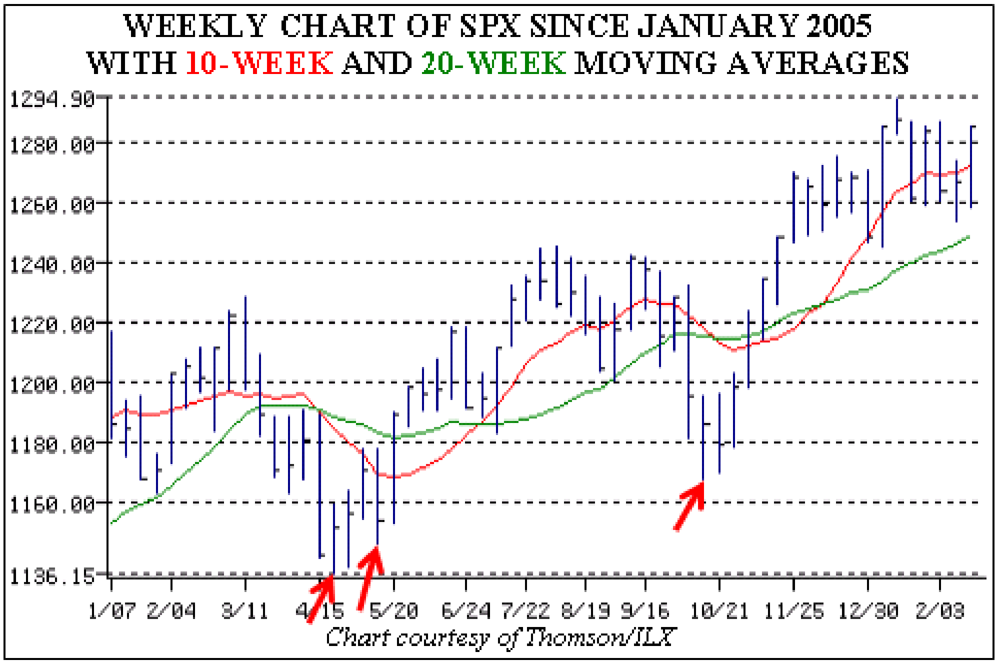
I have written about the ISE Sentiment Index (ISEE) in the past (see: [Market Update: A Less-Watched Indicator] and [Market Update: ISEE Goes Above 200 Again]), but it has been some time since I have said anything about it.

Just in case you have forgotten, this is a sentiment ratio from the International Securities Exchange that measures the calls purchased to open versus the puts purchased to open. It only measures customer transactions, eliminating the activity of brokerage firms and market makers. The higher the reading in the ISEE, the bigger the discrepancy between the optimistic activity (calls) and the pessimistic activity (puts).

In the past when I have written about the ISEE, it has been because we had seen extremely high numbers, but not this time. What caught my attention this time was the fact that we had two consecutive readings that were among the lowest readings for the past year. In fact, the last two days' readings were 117 and 126, each of which are among the lowest 10 percent of readings for the past year. Given the propensity for the ISEE to gyrate sharply up and down, I started looking for other instances where consecutive readings were among the lowest 10 percent. I only found two other instances that officially fit this criterion: April 21 and 22, 2005 and May 12 and 13, 2005. I decided to count one other instance just because it was so close, and that was October 10 and 11, 2005 (the 11th's reading was just outside the lowest 10 percent at 11 percent).

I have plotted the past year's readings on the chart below and I have marked these dates with read arrows. Below the chart of the ISEE, there is a chart of the S&P 500 Index with these dates marked on this chart with red arrows as well.





As you can see from the chart of the SPX, these instances where we have seen consecutive days with extremely low readings have marked bottoms in short-term pullbacks. While you should not use one indicator as your market barometer, instances like the ones illustrated above should certainly figure into your trading strategy for the short term.

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