The Sentiment King

January 3, 2026

The Master Sentiment Indicator (MSI)

and

The Stock Market's Long-Term Outlook

We increased stock allocation 2.5% two weeks ago by adding energy stocks. This is the first change since we increased stock allocation on April 7th.

Our Current Recommended Asset Allocation

57.5% stocks
20% bonds
0% gold
22.5% cash

We increased our stock allocation 2.5% by buying XLE (largest energy etf) at $44 two weeks ago. We're still hoping for a short term sell off so we can buy the other 2.5% at $40 or less. Otherwise, we'll buy the additional 2.5% on a price breakout above $47. This is intended as a long-term investment of two to four years. It's the first change in asset allocation since we increased it 5% April 7th.

Since January's Green Zone signal, we remain at full, 20% bond allocation. With the recent decline in bond prices, the movement in sentiment toward the Green Zone might give investors a second opportunity. In the meantime, we are happy the decline over the last two months has been mild.

Gold allocation can go from 0% to 10% depending on our gold sentiment indicators. Because of current sentiment readings, we continue to recommend gold at zero allocation. We will produce a new gold report once the government updates the weekly COT data, which should be next week.

We currently recommend 22.5% in money market as opportunity money for stocks and gold. We will increase stock allocation a second time once we get a correction to this first wave. We will consider reducing stock allocation if we get Red Zone signals in both the MSI and the ST-MSI. Bonds are at full allocation.

The Master Sentiment Indicator (MSI)

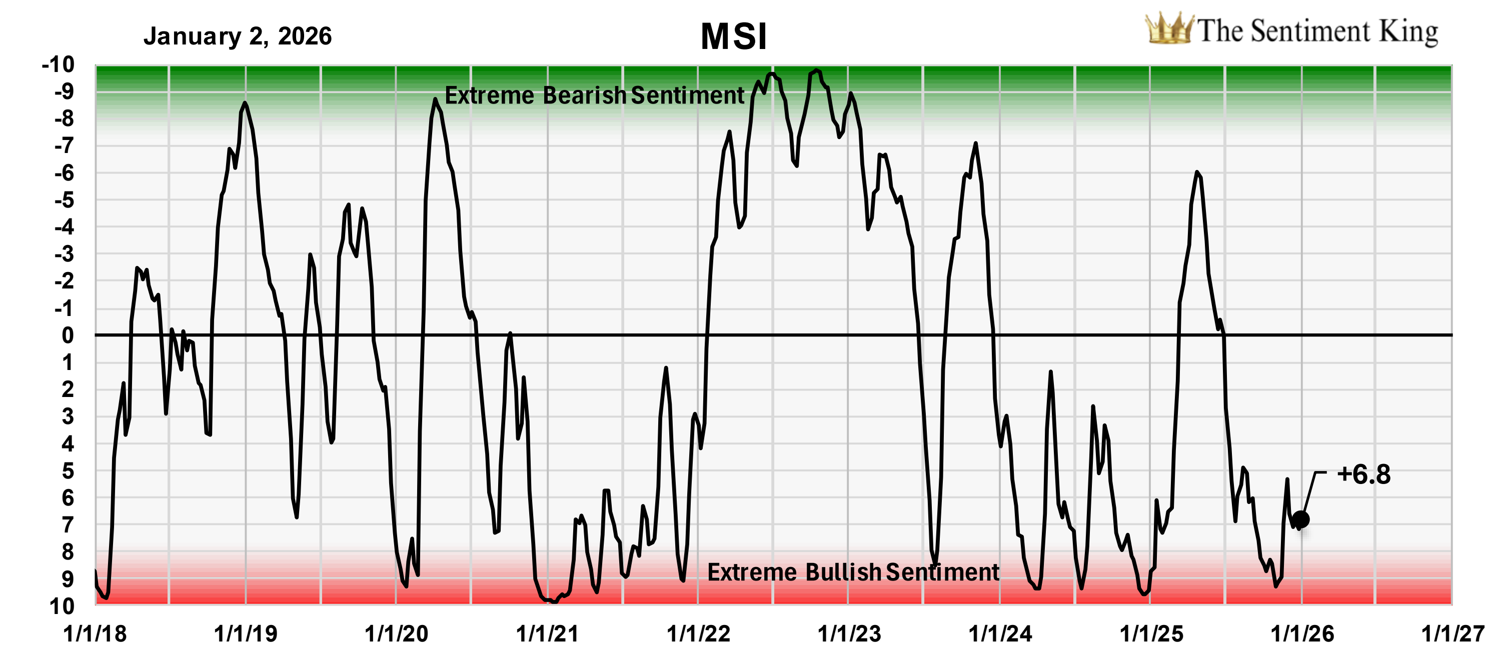
The Master Sentiment Indicator is a long-term indicator, and the speed dial shows that it is currently at +6.8. Last week it was +7.3. A Red Zone action signal is +9.0 or higher.

January 2, 2026

MSI Table

	SK Rank	Total Puts/Calls	Equity Puts/Calls	COT S&P500 E-mini	ProShares Ultra Short to Long Buying	NAAIM	Stock Survey	Nasdaq Survey	AAII Sentiment	Investors Intelligence	MSI
Extreme	-10										
Bearishness	-9										
	-8				X						
	-7										
	-6										
	-5										
	-4										
	-3										
	-2								+		
	-1								X		
Neutral	0										
	+1										
	+2										
	+3										
	+4	X	X								
	+5	+									
	+6		+					X			
	+7							+			X
	+8			X						X	
Extreme	+9					X					
Bullishness	+10						X				

The yellow X's mark the current ranking of each indicator, while the + shows where that indicator was a week ago. Each cell represents a 5% change in the indicator against historic norms. Five indicators shifted one unit toward the Red Zone. (The government COT data is still one week behind. It should be up to date by next week).



We are in "waiting mode" so will repeat last week's message: *"We still think the market is in a tight trading range and expect it will continue for another month, possibly two, before a second wave begins. However, due to heavy "put buying" and short selling in technology, there is the possibility prices could rise from here without further correction, but we don't expect it."*

"We will rely more on the ST-MSI than the MSI to signal the start of the second wave. We would like to see the MSI move into the neutral zone before it starts. That's because it's hard to imagine a strong, second wave starting with the MSI at +6.8. More time will also allow the 172-day moving average to catch up to the S&P 500."

The Sentiment King

January 3, 2026

The Short-Term Master Sentiment Indicator (ST-MSI)

and

The Stock Market's Intermediate-Term Outlook

The Short-Term Master Sentiment Indicator (ST-MSI)

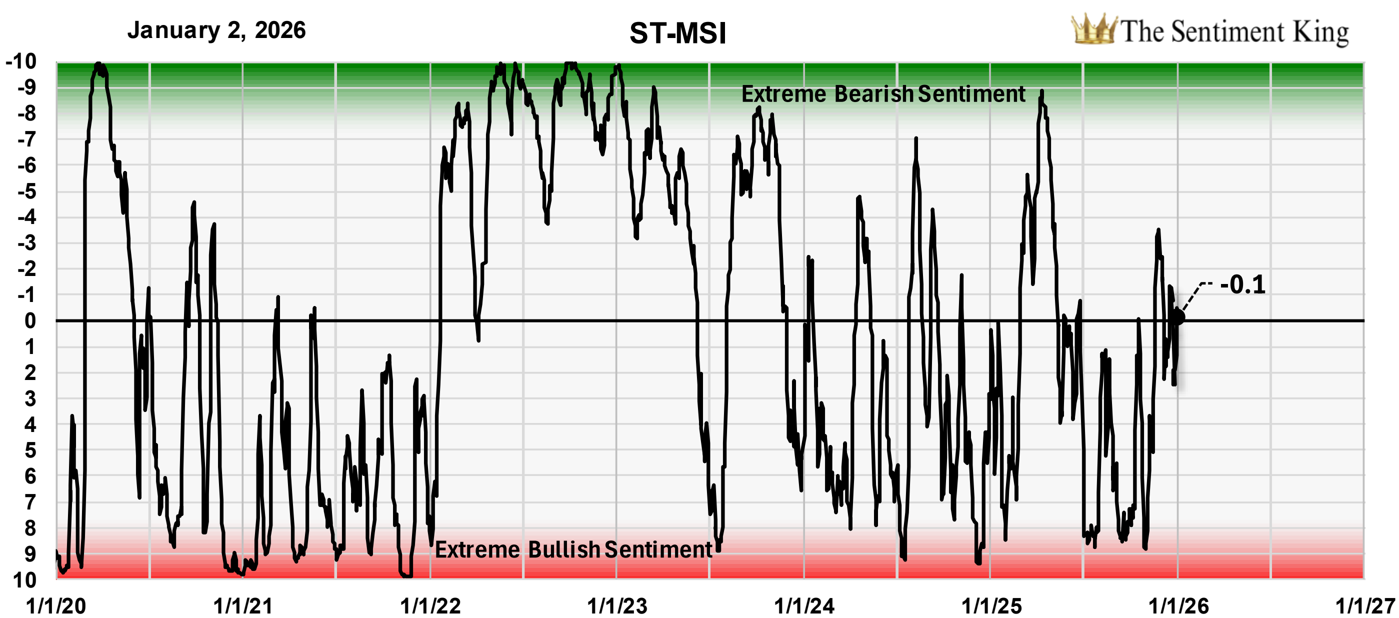
The ST-MSI ended Friday at **-0.1**. This compares to +1.9 last week.

January 2, 2026

ST- MSI Table

	SK Rank	ST - Stock Survey	ST- Nasdaq Survey	20% Equity P/C	20% Total P/C	VIX	Ultra Bear to Bull Buying Ratio	UltraPro Bear to Bull Buying Ratio	ST-MSI
Extreme	-10								
Bearishness	-9								
	-8								
	-7						X		
	-6						+		
	-5								
	-4								
	-3								
	-2								
	-1			X				+	
Neutral	0								X
	+1								
	+2				X				+
	+3		X					X	
	+4		+	+		X			
	+5				+	+			
	+6								
	+7								
	+8								
Extreme	+9	+							
Bullishness	+10	X							

The ST-MSI is designed to measure investor expectations for the intermediate-term, and it therefore changes faster than the MSI. This table shows the ranking of each of the seven indicators that make up the ST-MSI. The yellow X's mark the current rank while the + shows where that indicator was the previous week. The ST-MSI currently sits right in the middle of the neutral zone.



ST-MSI

The following remains our basic forecast: *"A 5% to 7% trading range that lasts two to three months followed by a second advancing wave. Since the trading range is already two months old, we expect it to continue for at least another month."*

"However, because of heavy "put buying" and short selling in the technology sector, there is the possibility prices could rise from here without further correction, but we don't expect it. Either way, unless there is an unexpected world crisis, we see little risk of a significant market decline at this time. "

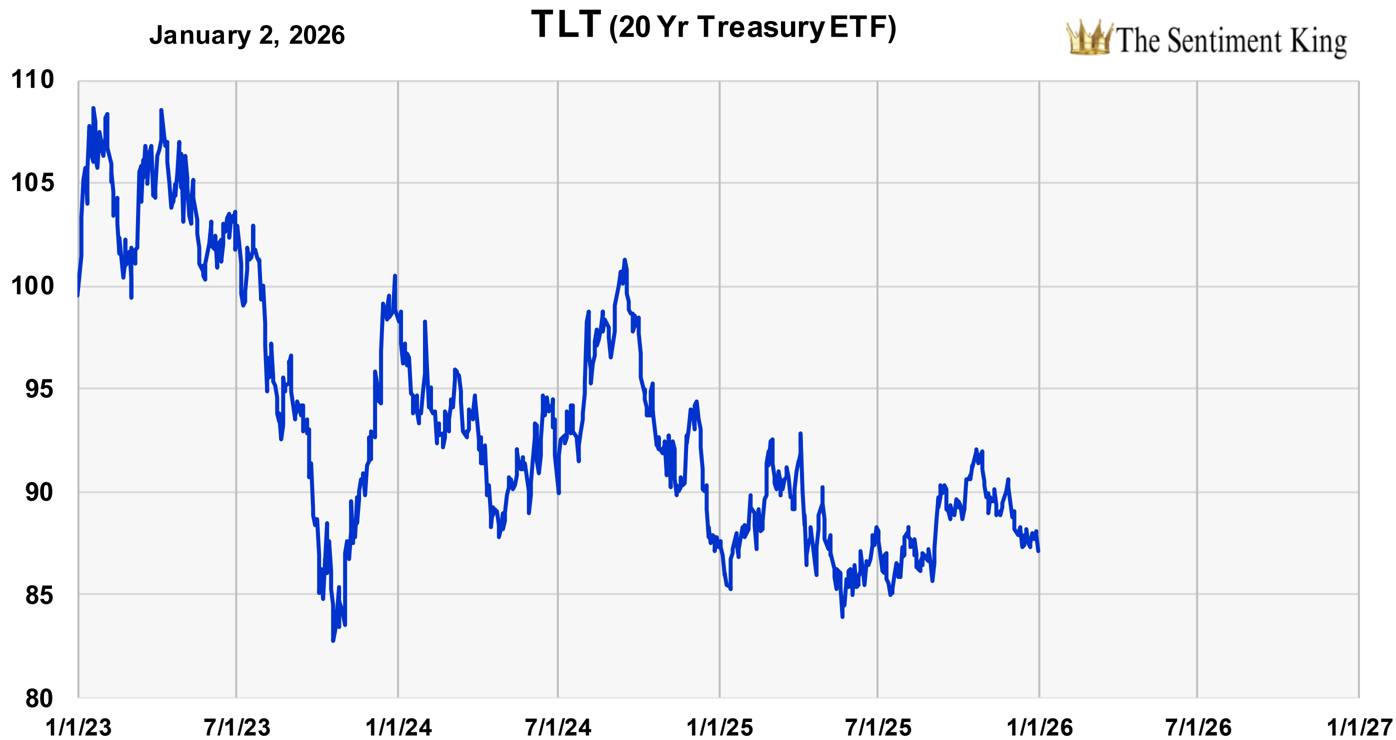
The Topping Process

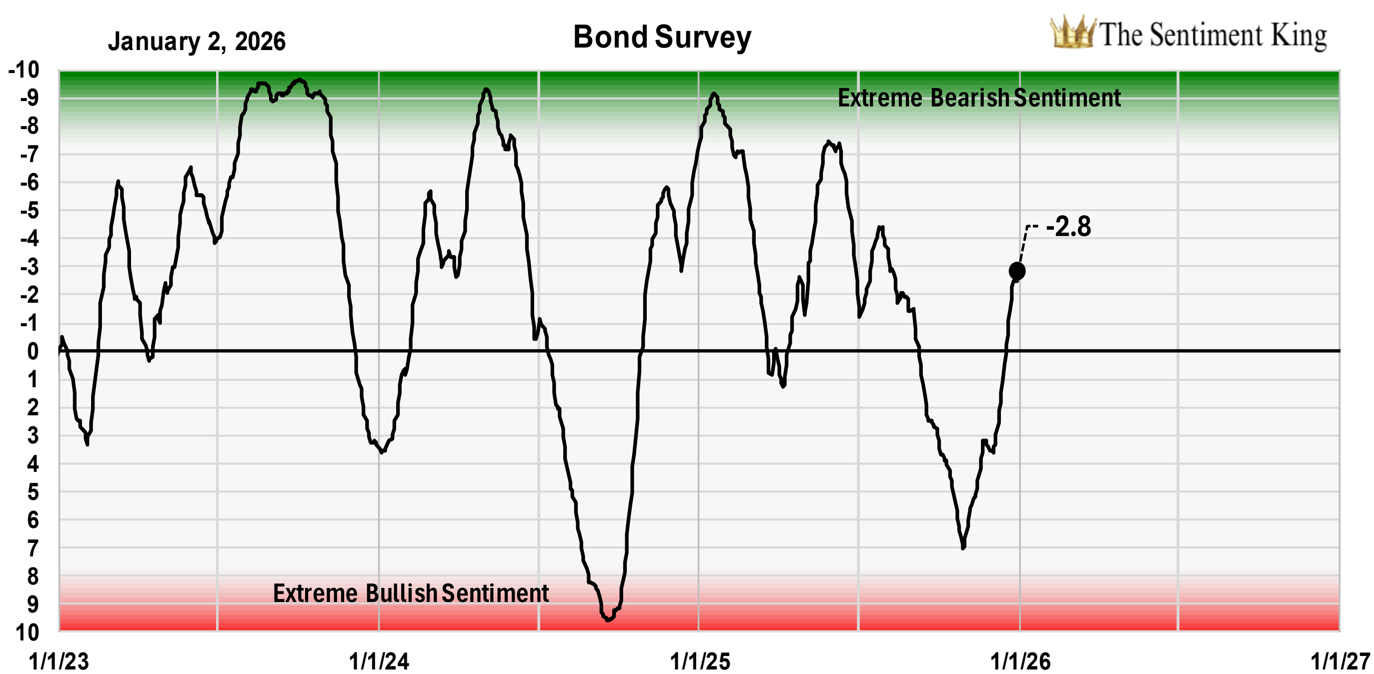
One phenomena that usually occurs before a major decline is that, while indexes make new highs, the number of stocks making new highs doesn't follow. In fact, they begin to contract. We experienced this the previous year, right before the big correction in April. Now we want to follow it during this strong rally.

The current divergence is highlighted by the red arrows. We don't believe this divergence is a harbinger of a major decline, at least not yet. What would worry us, would be the divergence increasing during the second wave. We are starting to see it manifest over the short term as there are fewer new highs from two months ago as the S&P 500 makes new highs. We don't expect anything important from this indicator soon, but we're keeping it here so you can watch it for educational purposes.

The Sentiment King Bond Report

January 3, 2026





Allocation of Long-Term Bonds

Bond market sentiment has moved from near the Red Zone well into the neutral Zone over the last six weeks. We remain at full 20% bond allocation since the Green Zone reading in January. With rising long-term rates and the resultant price decline, we are seeing sentiment move toward the Green Zone. It's now at **-2.8**. If we get a Green Zone reading it could be a second chance for those investors who missed last year.

It should be noted that this indicator signals intermediate-term moves, which can last from three to nine months. It is not a long-term indicator.

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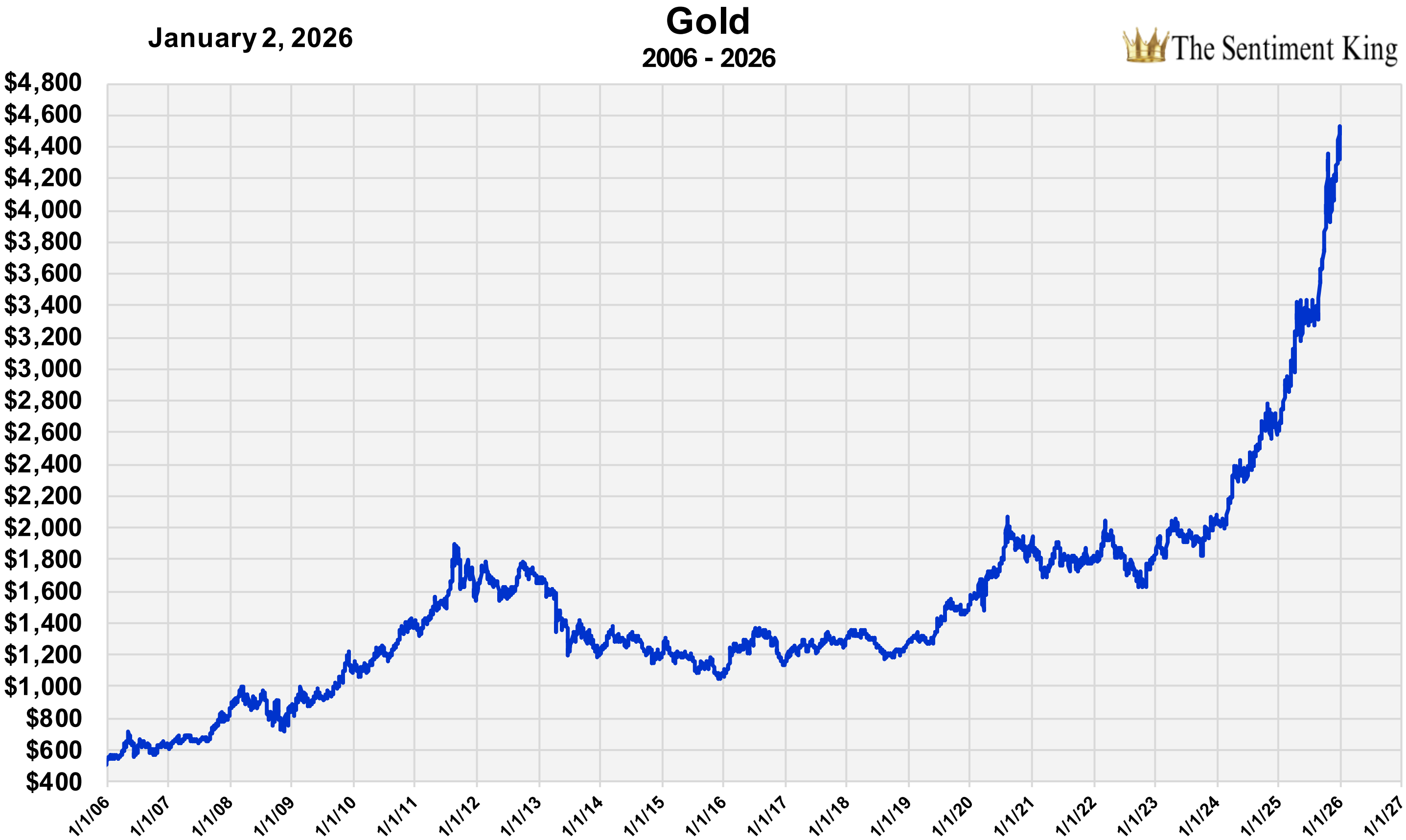
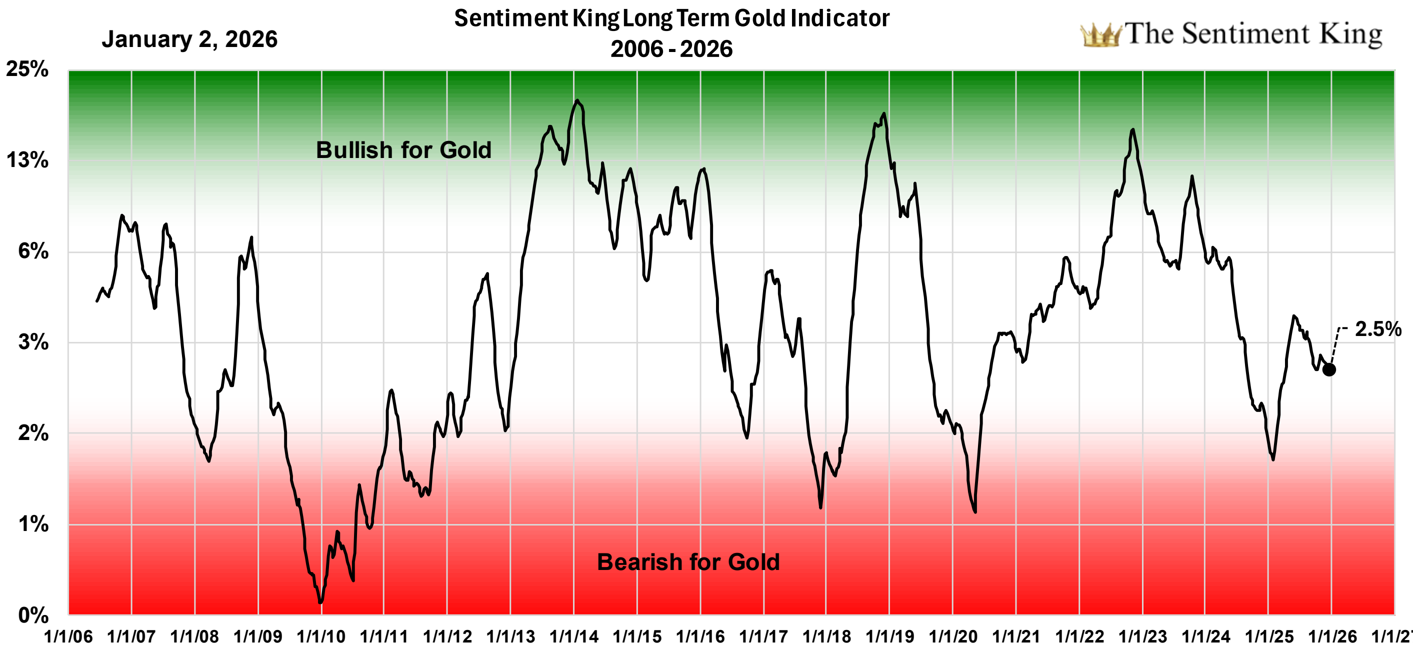
The Sentiment King Gold Report

(The SK Gold Report is biweekly).

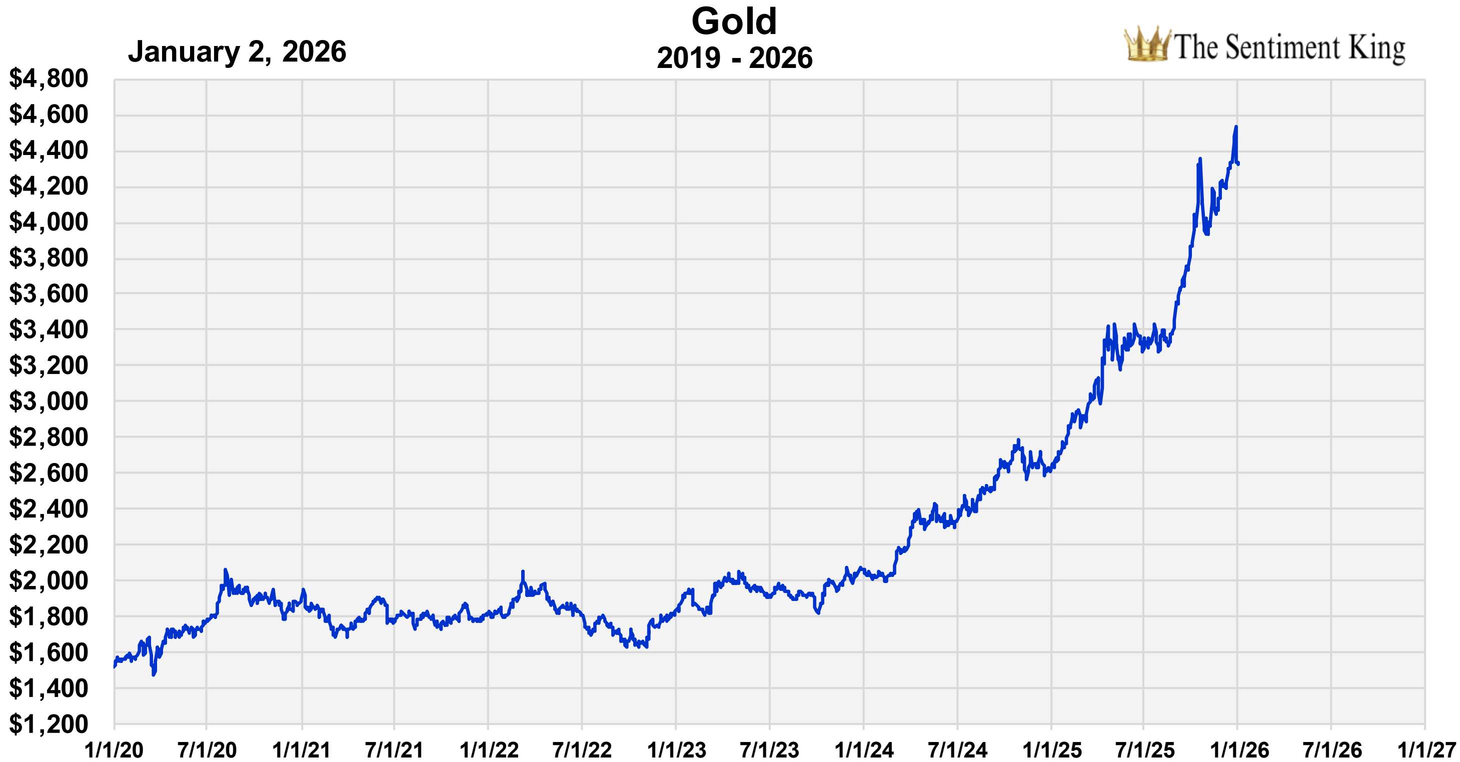


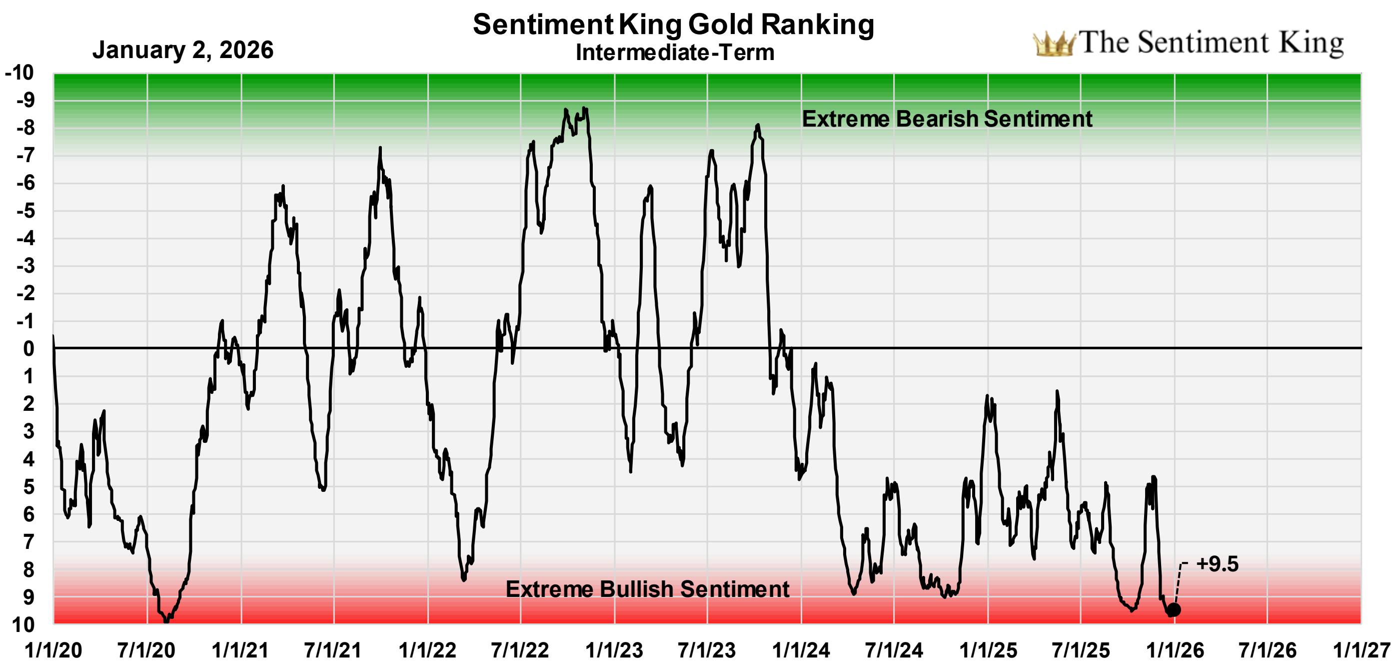


The SK Long-Term Gold Index

The **SK Long Term Gold Index** is calculated from Producer and Money Manager commitment of trader's data in gold futures. Green zone readings represent long-term bullish sentiment, while red zone readings signal caution long-term. As you can see, this index is a long-term indicator, with only three or four buy and sell signals over a 20-year period. After giving a long-term Red Zone sell signal in January when it reached 2%, the indicator backed off and continues to hover in the neutral zone. It's currently at 2.3%.

Note: The government reporting of futures positions, which was suspended on 9/26/25 because of the government shut down, is now current





The Sentiment King Intermediate-Term Gold Indicator

The intermediate-term gold sentiment indicator has moved solidly into the Red Zone at **+9.5**. This index is made from two sentiment indicators: 1) the SK rank of the Hulbert survey of gold newsletter writers and 2) the dollar "puts to calls" ratio of GLD.

We currently have the 10% allocated to gold in money market and have been at that allocation since late last year. While our intermediate term indicator got us in near the lows with a Green Zone reading in 2023, there is no doubt it got us out too early with the Red Zone reading in the Autumn of 2024. We are holding to our discipline and will rebuy gold at the next Green Zone signal.