

AII Sentiment Survey: Bearish Sentiment below Average for Second Week



August 16, 2012

Bearish sentiment remains below 30%, as the AII Sentiment Survey registered its first back-to-back below average readings for pessimism since April 5, 2012. Bullish sentiment also continues to be below its historical average.

Bullish sentiment, expectations that stock prices will rise over the next six months, edged up 0.4 percentage points to 36.8%. The increase keeps optimism at its highest level since April 5, 2012. Nonetheless, bullish sentiment is below its historical average of 39% for the 20th consecutive week.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined 1.1 percentage points to 35.1%. Even with the decrease, neutral sentiment is above its historical average of 31% for the third consecutive week and the seventh time out of the past nine weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, rebounded 0.7 percentage points to 28.1%. This is the second week that bearish sentiment is below its historical average of 30%.

Some AII members remain cautiously optimistic about the short-term direction in stock prices as the market holds onto its summer gains. Bullish sentiment remains below its historical average, however, as concerns about slowing global economic growth, Washington politics, the European sovereign debt crisis and further market volatility remain very much front and center. The ongoing streak of below-average bullish sentiment is the longest since a 29-week period between April 2, 1993, and October 15, 1993.

This week's special question asked AII Members whether this summer's financial industry scandals (Knight Capital, Standard Chartered, Peregrine Financial Group, etc.) have impacted their sentiment toward stocks or if their sentiment is mostly impacted by macro factors (e.g., the economy, Europe, etc.) instead. Respondents overwhelmingly said their sentiment is affected by macro factors, not the

recent scandals. Several respondents made the observation that the industry has long had problems, making the recent headlines more noise than anything else.

Here is a sampling of the responses:

“I’m more concerned about the macro factors, such as the U.S. and Europe. Investors are almost immune now to stories of financial fraud.”

“My sentiment is definitely impacted by macro events; however, I don’t like hearing about the shenanigans occurring at Knight Capital.”

“Financial scandals are interesting, but irrelevant. My sentiment depends on a comparison of the stock market’s price level versus the U.S. economy.”

“My sentiment toward stocks is affected more by macro factors, including the fact that financial industry scandals have become the norm.”

“I have become more cautious in how I invest and use limit orders when buying or selling securities.”

This week’s AAI Sentiment Survey results:

Bullish: 36.8%, up 0.4 percentage points

Neutral: 35.1%, down 1.1 percentage points

Bearish: 28.1%, up 0.7 percentage points

Historical averages:

Bullish: 39%

Neutral: 31%

Bearish: 30%

The AAI Sentiment Survey has been conducted weekly since July 1987 and asks AAI members whether they think stock prices will rise, remain essentially flat, or fall over the next six months. The survey period runs from Thursday (12:01 a.m.) to Wednesday (11:59 p.m.) The survey and its results are available online at: <http://www.aai.com/sentimentsurvey?a=blog>