

AAII Sentiment Survey: Bearish Sentiment Surges to 54.5%



Bullish sentiment plunged to levels not seen since the end of the last bear market, while bearish sentiment posted its third largest weekly spike in the history of the AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 16.2 percentage points to 19.3%. This is the lowest level of optimism recorded by the survey since March 5, 2009. The historical average is 39%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, dropped 10.1 percentage points to 26.2%. This is a five-week low. The historical average is 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, spiked upward by 26.3 percentage points to 54.5%. This is the highest pessimism has been since July 8, 2010.

The 19.3-point plunge in bullish sentiment was the largest one-week drop since optimism fell by 17.6 percentage points on November 18, 2010. This week's drop is also the 34th largest in the history of the survey and the 66th largest overall weekly change. The AII Sentiment Survey started in 1987.

The 26.3-percentage point rise in bearish sentiment was exceeded only by a 26.7-percentage point rise on July 3, 2003 and a 30.0-percentage point rise on March 30, 2000. This week's change is also the fifth largest in the survey's history. Pessimism fell by 29.2 percentage points on April 6, 2000, and by 27.3 percentage points on June 26, 2003.

A total of 145 AII members took the survey this week. This is down from the three-month average of 330 responses. A weekly "reminder" email normally sent to a sample of our members was unintentionally not sent this week. Previous drops in the number of respondents on a given week have not resulted in the magnitude of change recorded in this week's survey, however. Furthermore, 145 is not an abnormally low number of responses for the survey.

We are not seeing any specific signs that would suggest why pessimism surged and optimism fell so much. The disappointing jobs report could have played a role. We can say that some members have previously expressed concern that stock prices have moved too far, too fast and are now due for a

pullback.

At current levels, bearish sentiment is at an extraordinarily high level (more than two standard deviations above its historical average) and bullish sentiment is near an extraordinarily low level. (A bullish sentiment reading below two standard deviations would be 17.9%.) Such readings have historically been a contrarian signal. Though there is a correlation with between extraordinary sentiment readings and market reversals, as is the case with any single market indicator, the correlation is not perfect. Therefore we would consider other indicators and factors before making any judgment on the short-term direction of stock prices.

This week's special question asked AAI members if the rhetoric from and the actions by North Korea are influencing their short-term outlook for stock prices. More than 80% of respondents said no, the terse language and actions from North Korea are not impacting their sentiment. A few members said it was having some impact, but also noted that other macro factors are also influencing their sentiment toward U.S. stocks.

Here is a sampling of the responses:

- "No. I think most investors assume that North Korea is just making threats to get something of value from the rest of the world."
- "Not really. I think most people see this as 'business as usual' for a new dictator."
- "Not until an actual armed conflict occurs."
- "Yes, but biggest issue at present is that this market needs rest."

This week's AAI Sentiment Survey results:

- Bullish: 19.3%, down 16.2 percentage points
- Neutral: 26.2%, down 10.1 percentage points
- Bearish: 54.5%, up 26.3 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 30.6%
- Bearish: 30.6%

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>