

AII Sentiment Survey: Bears Outnumber Bulls for First Time since August

Bearish sentiment rose back above its historical average, nearly hitting a four-month high in the latest AII Sentiment Survey. This increase in pessimism, combined with a drop in optimism, has caused bears to outnumber bulls for the first time since August 22, 2013.

The increase in pessimism and the declines in both bullish and neutral sentiment are an indication of a more cautious outlook for the six-month direction for stock prices.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 5.9 percentage points to 32.2%. This is the lowest level of optimism registered by our survey since August 22, 2013. It is also the third consecutive week that bullish sentiment is below its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, fell 3.1 percentage points to 35.1%. This is the fourth consecutive week with a neutral sentiment reading above the historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, surged upwards by 9.0 percentage points to 32.8%. This is the highest level of pessimism registered by our survey since October 10, 2013. This week's reading also ends a streak of 15 consecutive weeks with bearish sentiment below its historical average of 30.5%.

January's volatility continues to cast clouds over individual investors' short-term outlook for stock prices. Since registering 55.1% on December 26, 2013, bullish sentiment has fallen by a cumulative 22.9 percentage points. In addition to the modest decline in the S&P 500, concerns about the market having reached a short-term top, valuations, the pace of economic growth and Washington politics are dampening investors' mood. Offsetting these worries is earnings growth, economic growth, the record highs established by the large-cap indexes earlier this month and the Federal Reserve's tapering of its bond purchases.

This week's special question asked AII members if they are currently favoring large-cap, mid-cap, small-cap or micro-cap stocks. Popularity decreased with company size as 45% of respondents prefer large-cap stocks, 26% prefer mid-cap stocks, 19% prefer small-cap stocks and 7% prefer micro-cap stocks. Several respondents picked two of the four categories.

Many respondents said they liked large-cap stocks for their comparative stability, the possibility of

the bull market ending sooner than later or because of the payment of dividends. Mid-cap, small-cap and micro-cap stocks were largely favored on the expectation of better price appreciation. Some respondents said they favored large- and mid-cap stocks because of the outperformance small-cap stocks have experienced.

Here is a sampling of the responses:

- “Large caps, because they have higher yield and better safety in my humble opinion.”
- “Large-cap stocks paying dividends. Given my bearish tilt, I am generally favoring these kinds of stocks as defensive posturing.”
- “Large cap; they tend to do well near the end of a bull market.”
- “Mid cap—I believe they will move more than large caps and are safer than small caps.”
- “Small cap—they have better prospects of growth in earnings and stock appreciation than other market segments.”

This week’s AAI Sentiment Survey results:

- Bullish: 32.2%, down 5.9 percentage points
- Neutral: 35.1%, down 3.1 percentage points
- Bearish: 32.8%, up 9.0 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 30.5%
- Bearish: 30.5%

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>