

# AII Sentiment Survey: Bullish Sentiment above Average for First Time since March



August 23, 2012

Bullish sentiment is above its historical average for the first time since March 29, 2012, according to the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 5.1 percentage points to 42.0%. This reading ends a streak of 20 consecutive weeks with bullish sentiment readings below the historical average of 39%.

Neutral sentiment, expectations that stock prices will stay unchanged over the next six months, fell 2.9 percentage points to 32.2%. Even with the decline, neutral sentiment is above its historical average of 31% for the fourth consecutive week and the eighth out of the last 10.

Bearish sentiment, expectations that stock prices will fall over the next six months, declined 2.2 percentage points to 25.9%. This is the fourth consecutive week that bearish sentiment has declined. It is also the lowest level of pessimism recorded by our survey since March 29, 2012. The historical average is 30%.

Since bullish sentiment reached nearly a two-year low of 22.2% on July 19, 2012, optimism has rebounded by a cumulative 19.8 percentage points. Rising stock prices, a lack of new negative macro headlines and data showing that the U.S. economy is not stalling have all combined to improve individual investors' moods. The optimism is cautious, however, as individual investors continue to fret about slowing global economic growth, Washington politics, and the European sovereign debt crisis. New negative headlines or a return of downward market volatility would dampen the current short-term optimism for stocks.

Bears and contrarians may notice that this week's readings are close to those registered on March 29, 2012, right as the first quarter's rally was reaching its peak. This is simply a coincidence (and

hopefully not one that ends up foreshadowing future events). This week's readings are well within the typical ranges we have seen throughout the history of the survey.

This week's special question asked AAI members if they expect the Federal Reserve to announce another round of quantitative easing (QE3) within the next few months. More than half of respondents are not expecting the Fed to act. About a quarter of the respondents expect the Fed to announce another round of monetary stimulus. Other AAI members were split between being unsure, listing the odds of new stimulus as 50/50 or not expecting any action to occur prior to the November elections.

Here is a sampling of the responses:

- "The economy is improving, although slowly. I do not expect another round of quantitative easing."
- "I don't think they're going to do it. Slow growth is acceptable. They've also held back to keep from looking political."
- "Unless the economy gets significantly worse, I don't expect another round of stimulus."
- "I believe there will be QE3, but its real impact will be minimal."
- "I expect there will be another round of stimulus soon, but I don't think there should be any more stimulus."

This week's AAI Sentiment Survey results:

- Bullish: 42.0%, up 5.1 percentage points
- Neutral: 32.2%, down 2.9 percentage points
- Bearish: 25.9%, down 2.2 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>