

AII Sentiment Survey: Bullish Sentiment Rises to a Four-Week High



Bullish sentiment rose to a four-week high, as pessimism ebbed in the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 2.3 percentage points to 30.4%. This is the highest level of optimism registered by our survey since July 5, 2012. Even with the increase, bullish sentiment is below its historical average for the 18th consecutive week.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, jumped 5.9 percentage points to 34.6%. The increase puts neutral sentiment above its historical average of 31% for the fifth time in seven weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, plunged 8.2 percentage points to 34.9%. This is a four-week low for pessimism. Even with the decrease, bearish sentiment is above its historical average for the 13th consecutive week and the 16th out of the last 17 weeks.

Bullish sentiment has risen only to the lower end of the range where historical readings have typically registered. The sustained above-average pessimism and the above-average neutral readings indicate many AII members are not convinced that the recent upward move in stock prices will continue. Market volatility, slowing global economic growth, Washington politics and the European sovereign debt crisis are all continuing to fray the nerves of individual investors.

Yesterday's trading problems at market maker Knight Capital Group occurred near the end of the survey period. The volatility created within certain stocks by the technology issues at the firm was another dark cloud for those investors who already lacked confidence in the stock market. Quantifying the actual impact is difficult, however, since most individual investors do not know where their orders are routed.

This week's special question asked AII members if they have recently begun bargain shopping or, if they haven't, whether there was a price level that would encourage them to start looking for

bargains. The majority of respondents said no, they have not started to look for bargains. Many in this group said a further price drop of 10% to 20% would encourage them to start bargain hunting. A small group of respondents said they were either already fully invested or are more focused on long-term allocation strategies.

Less than 20% of respondents said, yes, they are currently bargain hunting for stocks. Within this group, several said they were always on the lookout for attractive stocks at good prices.

Here is a sampling of the responses:

“Not yet. I’m worried about a macro event causing a 10% to 20% drop. Within that range, I would be buying.”

“A 20% drop would motivate me to consider buying dividend growth stocks, which are now fairly valued or overpriced.”

“A 10% drop would be good enough to start bargain hunting.”

“No. I keep a balanced portfolio of corporate bonds and equity ETFs. I rebalance twice a year, if needed.”

“I’m mildly and cautiously bargain hunting—a 20% drop would send me into a greed-fueled buying frenzy.”

“I’m always hunting for good stocks.”

This week’s AAI Sentiment Survey results:

Bullish: 30.4%, up 2.3 percentage points

Neutral: 34.6%, up 5.9 percentage points

Bearish: 34.9%, down 8.2 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?a=blog>