

AAll Sentiment Survey: Despite Big Drop, Optimism Stays Above Average

After being at unusually high levels for three out of the past four weeks, the level of optimism among individual investors fell by the largest weekly amount since June 18, 2014 (9.5 percentage points). However, because optimism was at such high levels, bullish sentiment remains above its historical average. Meanwhile, pessimism continues to be below average despite a rebound in bearish sentiment.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 9.5 percentage points to 42.7%. This is a seven-week low. Even with the decline, bullish sentiment remains above 40% for the eighth consecutive week and above its historical average of 39.0% for the 16th out of the past 17 weeks.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, rose 4.3 percentage points to 31.4%. The rise puts neutral sentiment above its historical average of 30.5% for the first time in four weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, rose 5.1 percentage points to 25.9%. The level of pessimism registered by our survey was last higher on October 16, 2014 (33.7%). Even with this week's rise, bearish sentiment remains below its historical average of 30.5% for the seventh consecutive week and the 40th week this year.

Prior to this week's reading, bullish sentiment had largely been at unusually high levels. Optimism exceeded 50% during three out of the past four weeks. Accompanying the swing back toward the historical average was short-term weakness in large-cap stocks prior to yesterday's new high for the S&P 500 index.

Keeping individual investors optimistic is the overall upward momentum in stock prices, earnings growth, the Federal Reserve's ending of its bond purchasing program, falling energy prices and sustained economic expansion. Keeping other AAll members cautious are geopolitical events, a sense that prevailing valuations are too high, the pace of economic growth and worries that a larger drop in stock prices is forthcoming.

This week's AAll Sentiment Survey results:

- Bullish: 42.7%, down 9.5 percentage points
- Neutral: 31.4%, up 4.3 percentage points

- Bearish: 25.9%, up 5.1 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>.