AAII Sentiment Survey: Enthusiasm Wanes as Neutral Sentiment Rises

Individual investors’ short-term enthusiasm for stocks waned, as a greater percentage expect stock prices to remain unchanged over the short term, according to the latest AAII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 13.0 percentage points to 36.0%. This is a four-week low. The historical average is 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, rose 4.9 percentage points to 34.4%. Not only is this an eight-week high, it is also the fifth time in six weeks and the seventh time in 10 weeks that neutral sentiment is above its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rebounded by 8.1 percentage points to 29.6%. Even with the increase, pessimism remains below its historical average of 30.5% for the fourth consecutive week.

This is the second time in three weeks that both bullish and bearish sentiment are below their historical averages. This is the first occurrence of where both optimism and pessimism have been below average for a second time in such a short span since March 2010. Between February 25, 2010, and March 18, 2010, both bullish and bearish sentiment were below average during three out of four weeks.

The drop in optimism coincides with the recent speculation about whether the Federal Reserve will reduce its bond purchases sooner than later, and the resulting pullback in stock prices. Though individual investors have been encouraged by the current rally, the first quarter’s better-than-expected earnings, signs of continued economic growth and the presence of potentially negative headlines dampened their enthusiasm, at least temporarily. Prior to the recent Fed chatter, some AAII members had been concerned about current valuations, the actual pace of economic growth and a lack of progress on key issues by the White House and Congress.

This week’s special question asked AAII members how a change in the Federal Reserve’s bond buying program would impact their six-month outlook for stock prices. More than 40% of respondents said a reduction in or an ending of the program would cause them to be more bearish about the short-term outlook for stocks. The range of pessimism varied from slight—a small pullback in stock prices—to high, a correction or worse in stock prices. Approximately 25% of respondents said their short-term outlook would be unaffected by a change in the current Fed policy. A small number, about 10%, said such a move would help stocks or at least create a buying opportunity.

Here is a sampling of the responses:

- “The market is a balloon held up by the hot air from the Fed. Take this away and the party ends.”
- “Reducing the program will temporarily and negatively affect the stock market.”
- “Not at all—any correction would be over within a six-month time frame.”
- “It would depend on the rate of the decrease in bond purchases.”
- “It would not change my allocation. I can’t predict the market and don’t try. I just keep a balanced portfolio.”

This week’s AAII Sentiment Survey:

- Bullish: 36.0%, down 13.0 percentage points
- Neutral: 34.4%, up 4.9 percentage points
- Bearish: 29.6%, up 8.1 percentage points

Historical averages:

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

The AAII Sentiment Survey has been conducted weekly since July 1987 and asks AAII 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.aaii.com/sentimentsurvey