

AII Sentiment Survey: Investor Attitudes Remain Volatile

Individual investor's short-term outlook for stocks remains volatile, as is evident by the latest AII Sentiment Survey. Bullish sentiment fell 6.5 percentage points and bearish sentiment rose 9.3 percentage points.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 6.5 percentage points to 29.5%. This is a six-week low. It is also the 12th time in the past 15 weeks that optimism is below its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, pulled back by 2.8 percentage points to 31.6%. Even with the decrease, neutral sentiment stayed above its historical average of 30.5% for the sixth time in seven weeks and the eighth in the past 11 weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, surged 9.3 percentage points to 38.9%. This is the highest level of pessimism registered by our survey in seven weeks. It is also the first time in five weeks that bearish sentiment is above its historical average of 30.5%.

Individual investor sentiment remains highly volatile. Bullish sentiment is down 19.5 percentage points from two weeks ago and bearish sentiment is up 17.3 points over the same period. Since the start of March, bullish sentiment has fluctuated within a 26.1-point range and bearish sentiment has fluctuated within a 32.9-point range.

The recent speculation about whether the Federal Reserve will reduce its bond purchases sooner rather than later has added to the mixed opinions AII members have about the short-term direction of stock prices. While individual investors have been encouraged by the length of the current rally, the first quarter's better-than-expected earnings and signs of continued economic growth, they have also been discouraged by prevailing 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 AII members for their perceptions on the housing market. More than 60% of respondents said the housing market was either improving or that the recovery is sustainable. Several described the recovery as gradual or slow, however. Approximately 20% of respondents view housing as either being propped up by low interest rates or susceptible to a slowdown when rates rise. A small percentage (9%) do not believe a housing recovery is actually underway.

Here is a sampling of the responses:

- “My perception is that pent up demand coupled with historically low interest rates and a recovering economy are facilitating the ascent in the housing market.”
- “There seems to be upward movement in housing prices, but with considerable variability within and across markets.”
- “Hopeful, but cautious moving forward. The turnaround is coming from a historic low point in the market.”
- “Sooner or later, the Fed will have to increase interest rates and that will dampen the recovery.”
- “Prices are rising too fast due to low interest rates. Buyers are overpaying, making way for another bubble.”

This week’s AAI Sentiment Survey results:

- Bullish: 29.5%, down 6.5 percentage points
- Neutral: 31.6%, down 2.8 percentage points
- Bearish: 38.9%, up 9.3 percentage points

Historical averages:

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

A new historical analysis of the AAI Sentiment Survey found that a correlation between low levels of optimism and good stock market performance over the following six- and 12-month periods exists. The analysis (“[Is the AAI Sentiment Survey a Contrarian Indicator?](#)”) is published in the June 2013 *AAI Journal*.

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>