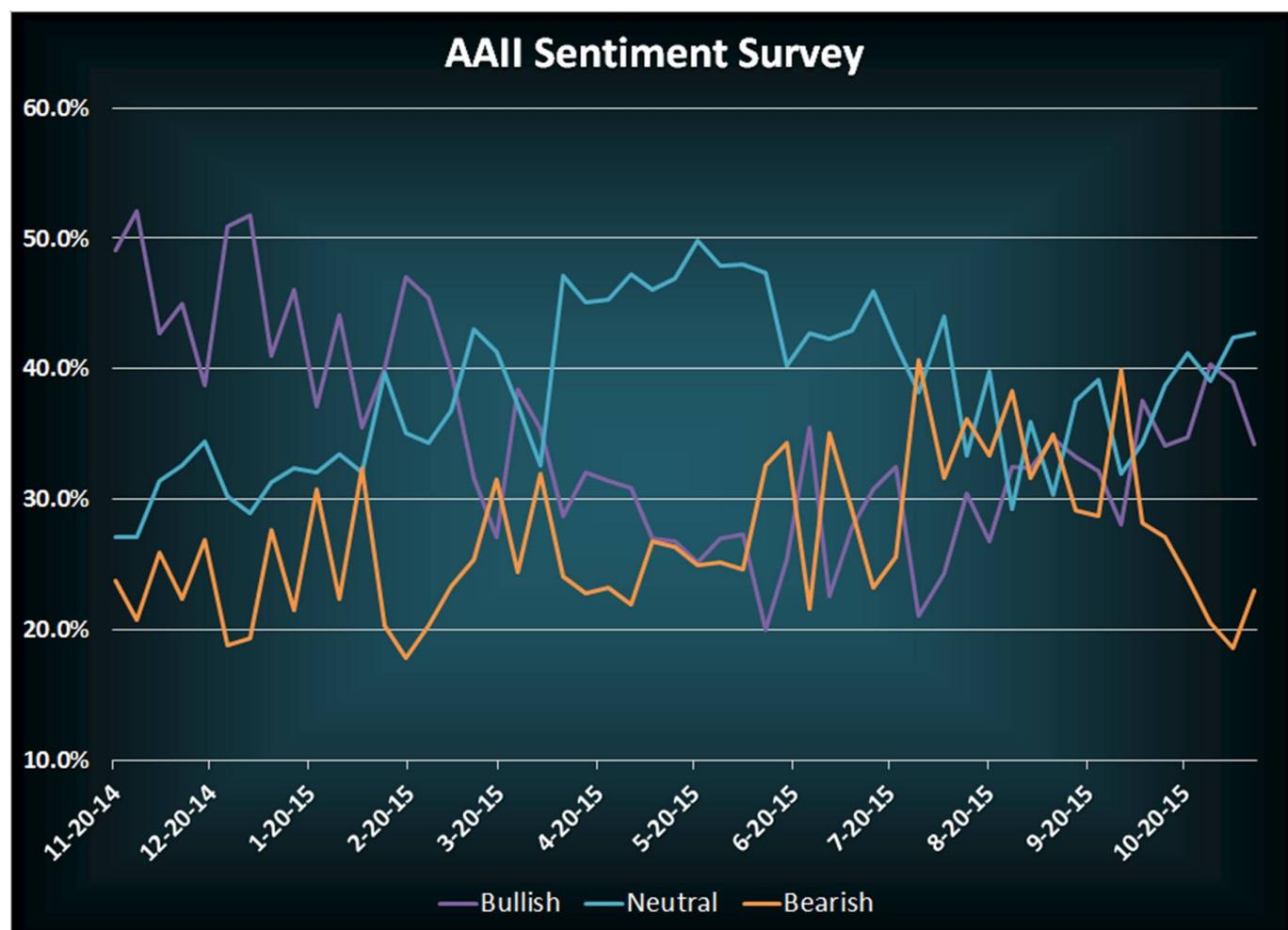


AII Sentiment Survey: Neutral Sentiment Stays Above 40%



More than four out of 10 individual investors describe their six-month outlook for stock prices as “neutral” for a second consecutive week, according to the latest AII Sentiment Survey. Optimism pulled back for a second consecutive week, while pessimism rebounded.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 4.7 percentage points to 34.3%. The drop puts optimism back below its historical average of 39.0% for the first time in three weeks.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, edged up 0.3 percentage points to 42.7%. The increase keeps neutral sentiment at its highest level since August 6, 2015 (44.0%). This is the ninth consecutive week and the 43rd week this year that neutral sentiment is above its historical average of 31.0%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rebounded by 4.4% to 23.0%. The increase ends a streak of five consecutive weeks with falling pessimism. Even with the increase, bearish sentiment remains below its historical average of 30.0% for the sixth

consecutive week, the longest such streak since a nine-week stretch between April 9 and June 4, 2015.

As noted above, neutral sentiment is above 40% for the second consecutive week. The last time neutral sentiment was above 40% on consecutive weeks was the 16-week period of April 9 through June 22, 2015. Readings above 39.7% are unusually high (more than one standard deviation above high) and **have been associated with above-average market returns** over the following six and 12-month periods.

Bullish sentiment is exceeding bearish sentiment by a margin of at least 10 percentage points for the fourth consecutive week. This is the first time the survey's bull-bear spread has shown such a positive differential for four consecutive weeks since February 12 through March 5, 2015.

The decline in optimism occurred as the S&P 500 pulled back after having risen over the past four approximate weeks. There was also some reversion to the mean, as pessimism had fallen to an unusually low level last week. October's upward price momentum, seasonal trends and potentially better-than-forecast third-quarter earnings surprises have had a positive impact. On the other hand, some AAI members are not convinced that the recent upward momentum will continue and are concerned about global and international events (particularly China as well as global economic weakness), U.S. monetary policy, U.S. politics and the pace of U.S. economic growth.

This week's AAI Sentiment Survey results:

- Bullish: 34.3%, down 4.7 percentage points
- Neutral: 42.7%, up 0.3 percentage points
- Bearish: 23.0%, up 4.4 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 31.0%
- Bearish: 30.0%

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>.

