

AAII Sentiment Survey: Optimism at Highest Level since August



Bullish sentiment rose to its highest level since August, while bearish sentiment remained above its historical average in the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 2.8 percentage points to 38.5%. Optimism was last higher on August 23, 2012. The rise puts bullish sentiment close to its historical average of 39%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined 1.7 percentage points to 21.6%. The last time neutral sentiment was lower was October 6, 2011. The historical average is 31%.

Bearish sentiment, expectations that stock prices will fall over the next six months, declined 1.1 percentage points to 39.9%. This is the first time in four weeks that pessimism is below 40%, though the current reading is admittedly just barely below that mark. This is also the 11th consecutive week and the 27th out of the last 31 weeks that bearish sentiment has been above its historical average of 30%.

Bullish sentiment came in above 38% for the just the second time since April 5, 2012, a sign of just how much this year's rally has been mistrusted. Bullish sentiment has been below its historical average of 39% during 31 of the past 32 weeks. Whether this week's numbers mark a turning point or just a temporary blip remains to be seen. It is worth noting, however, that it is not just our survey that has shown an improvement in individual investor sentiment. Data published by the Investment Company Institute shows that the amount of weekly estimated outflows from domestic equity mutual funds has decreased during four out of the past five weeks.

Due to the survey's period of Thursday through Wednesday, the impact of the election's results are only partially reflected in the survey's results. Many individual investors are also cautiously watching Washington to see what will be done about avoiding the fiscal cliff, reducing the debt and aiding stronger economic growth.

This week's special question asked AII members how much the European sovereign debt crisis is

influencing their six-month outlook for stocks, especially relative to six months ago. Responses varied, though about half of the respondents said Europe's debt crisis was not having much of an impact or that their sentiment has not changed because of the crisis. About a third of the respondents said they have a negative outlook or their sentiment has worsened because of the crisis. A smaller group said the crisis has not changed their outlook.

Here is a sampling of the responses:

- "Not a lot. I'm more concerned with our do nothing Congress and the fiscal cliff."
- "Less than six months ago. I think we are suffering from impending-crisis-fatigue."
- "A lot less. I don't know why, because the problem has not gone away, but the anxiety about the situation is gone."
- "I'm not sure that the European Union has the problem solved and wrapped up in a bow, but it's out of the headlines as the fiscal cliff is the worry du jour."
- "It's having a greater influence because the actions thus far have just put off an inevitable disaster."
- "It does cause me to have a concern about how this is going to affect our own markets in the future."

AII Sentiment Survey:

- Bullish: 38.5%, up 2.8 percentage points
- Neutral: 21.6%, down 1.7 percentage points
- Bearish: 39.9%, down 1.1 percentage points

Historical averages:

- Bullish: 39%
- Neutral: 31%
- Bearish: 30%

The AII Sentiment Survey has been conducted weekly since July 1987 and asks AII 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>