

## AAII Sentiment Survey: Optimism at Highest Level since March



Bullish sentiment rose to its highest level since March 29, 2012, even as bearish sentiment stayed above its historical average for the 15th consecutive week in the latest AAI Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 1.3 percentage points to 42.2%. This is both the highest level of optimism registered by the survey and the first time bullish sentiment has been above its historical average of 39% on consecutive weeks since last March.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined 1.5 percentage points to 23.2%. This is the 10th time in 12 weeks that neutral sentiment is below its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, edged up 0.2 percentage points to 34.6%. This is the 15th consecutive week and the 31st out of the last 35 weeks that bearish sentiment is above its historical average of 30.5%.

The short-term outlook among AAI members has improved dramatically since November 15, 2012, with bullish sentiment jumping 13.4 percentage points. A good start to the holiday shopping season and the market's ability to hold steady despite continued uncertainty about the outcome of budget and tax negotiations in Washington are helping to boost optimism.

Seasonality may also be playing a role. In a report last week, Sam Stovall, the chief equity strategist for S&P Capital IQ, said December has the highest monthly average bullish sentiment readings. According to Stovall, since our survey started in 1987, bullish sentiment has averaged 41.8% in December. December also ranks number one in terms of S&P 500 performance. Stovall calculates an average December monthly gain of 1.36% for the S&P 500, using data dating back to 1900.

Even with the improvement in bullish sentiment, it is worth noting that bearish sentiment continues to stay at above-average levels. Failure by Congress and the president to avoid the fiscal cliff would likely have a damaging impact on individual investors' moods, especially if it seemed that the standoff would be protracted. Furthermore, many AAI members remain concerned about the pace of economic growth, ongoing political gridlock and Europe's sovereign debt crisis.

This week's special question asked AAI members for their opinions about companies declaring special dividends or paying their typical first-quarter dividend before the end of this year. The majority of survey respondents said such actions were a good idea given the possibility of higher tax rates next year. Several respondents differed, however, saying that the actions benefited executives and large shareholders, were a ploy to attract new shareholders or may not be the best use of company resources. A small group of respondents were indifferent, saying these actions will have no lasting impact. Several AAI members pointed to the ongoing gridlock over the fiscal cliff as the reason for the special dividends and the accelerated dividend payments.

Here is a sampling of the responses:

- "Given the uncertainty about tax reform, this may be a good approach for both the companies and investors."
- "Great. Less potential tax to pay to the IRS."
- "I think it is fine so long as the companies are not borrowing to make the dividend payments."
- "I'm not against it. I really wish, though, we had a political system that absolutely worked for all of us citizens."
- "It is more in the interest of the CEOs and board of directors than in the interest of the average shareholder."
- "I think it is short-sighted and a bad idea."

This week's AAI Sentiment Survey results:

- Bullish: 42.2%, up 1.3 percentage points
- Neutral: 23.2%, down 1.5 percentage points
- Bearish: 34.6%, up 0.2 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>