

AII Sentiment Survey: Optimism at Lowest Level since August

Individual investors' optimism about the short-term direction for stock prices is at a 12-week low, according to the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 4.8 percentage points to 34.4%. This is the lowest level of optimism registered by our survey since August 29, 2013. It is also the first time in six weeks bullish sentiment is below its historical average of 39.0%. Optimism has fallen by a cumulative 14.8 percentage points since hitting 49.2% on October 24, 2013.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, rose 2.8 percentage points to 36.1%. This is the highest neutral sentiment has been since August 15, 2013. It is also the fifth consecutive week that neutral sentiment is above its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rose 2.0 percentage points to 29.5%. Although at a six-week high, pessimism remains below its historical average of 30.5% for the ninth time in 11 weeks.

Since the end of April 2013, neutral sentiment has been above its historical average of 30.5% during 25 out of 31 weeks. Though neutral sentiment has stayed within the typical range we have seen throughout the survey's history, the frequent above-average readings are a sign that individual investors, in aggregate, have not been exuberant about stocks. Rather, they remain both hopeful for further price gains and observant of the potential downside risks.

This week's drop in bullish sentiment comes as the S&P 500 has declined for three consecutive days. Though many individual investors continue to be encouraged by the market's upward momentum, earnings growth and economic growth, others remain concerned about the pace of economic growth, elevated stock valuations and the lack of a long-term fiscal solution.

This week's special question asked AII members if they have changed their investment style because of the magnitude of the market's gains this year. Slightly more than half of respondents (52%) said no, they have not made any significant changes. Approximately 35% of respondents said they did make a change, but there was no clear trend in the type of changes they made to their investment strategies. More than 14% of all respondents said they have increased their cash allocations. Four percent of respondents said they have bought more large-cap stocks and an equal proportion said they have bought more dividend-paying stocks.

This week's AAI Sentiment Survey results:

- Bullish: 34.4%, down 4.8 percentage points
- Neutral: 36.1%, up 2.8 percentage points
- Bearish: 29.5%, up 2.0 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>