

AII Sentiment Survey: Optimism at New 2017 Low; Neutral at New High

Optimism among individual investors about the short-term direction of stock prices fell to a new 2017 low in the latest AII Sentiment Survey. At the same time, the percentage of individual investors describing their outlook as “neutral” is at a new high for the year.

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 8.9 percentage points to 23.9%. The drop keeps optimism below its historical average of 38.5% for 17 out of the last 18 weeks.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, jumped 4.8 percentage points to 41.9%. The rise keeps neutral sentiment above its historical average of 31% for the eighth time in nine weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, is 4.0 percentage points higher at 34.3%. Pessimism is above its historical average of 30.5% for 15 out of the past 18 weeks.

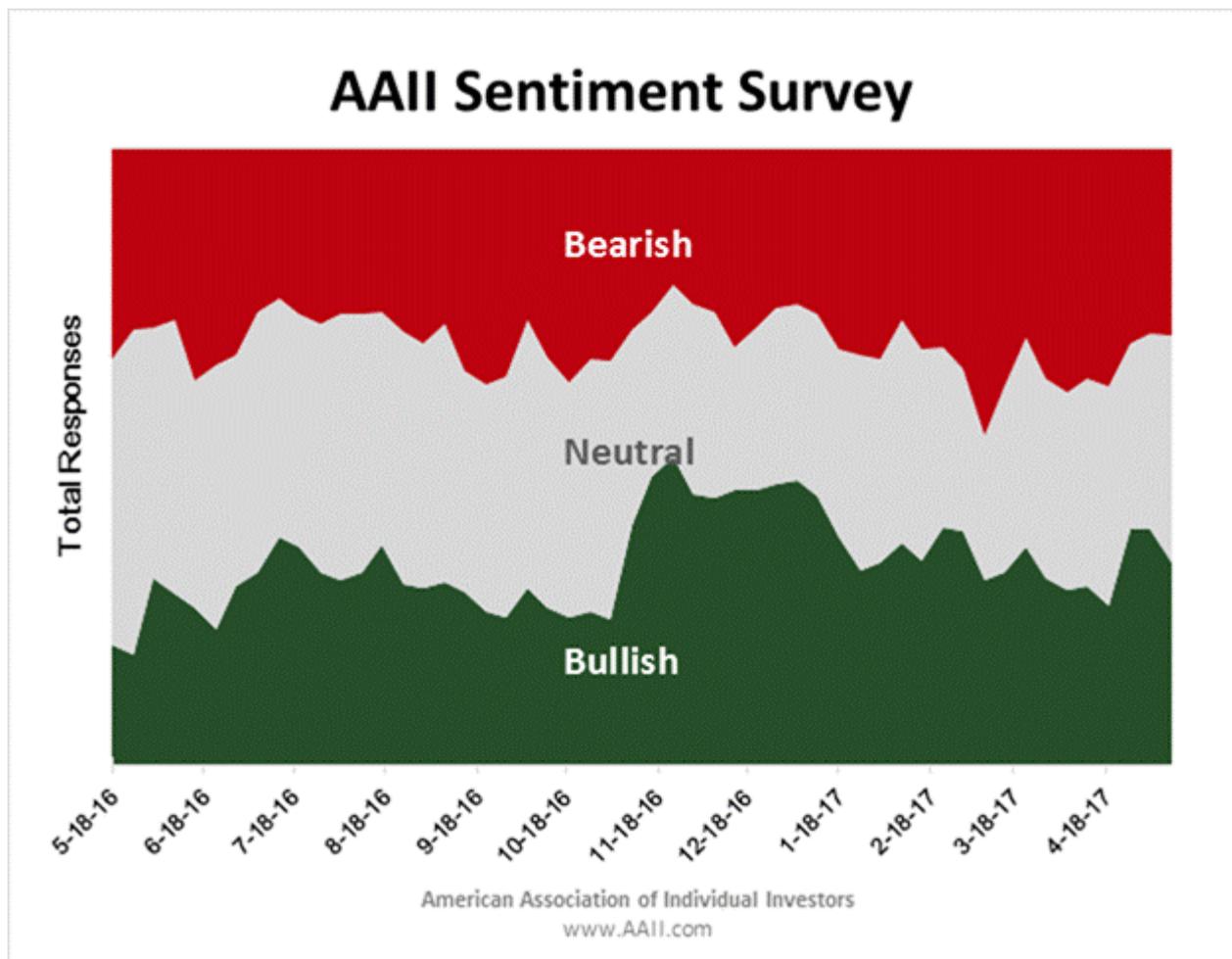
This week’s readings are almost exactly the same as what was registered the week before the November elections. The readings on November 2, 2016, were bullish: 23.6%, neutral: 42.0% and bearish: 34.3%.

At current levels, optimism is at an unusually low level and neutral sentiment is at an unusually high level. Both are more than one standard deviation from their historical averages. Since our survey was started in 1987, the S&P 500 has realized above-average gains over the six-month periods following unusually low bullish sentiment readings, rising in price nearly 85% of the time. There is no guarantee that this trend will continue in the future, however.

The survey period runs Thursday through Wednesday. As such, most of this week’s responses were recorded prior to yesterday’s nearly 2% decline in the S&P 500. Most of the responses were also recorded before the appointment of former FBI Director Robert Mueller as a special counsel to investigate foreign interference in the 2016 U.S. presidential election. As noted last week, we have continuously seen President Trump and the potential impact of his administration’s policies brought up in response to our weekly special questions—even when the questions have nothing to do with Washington politics.

Beyond politics, some AII members are fretting about valuations, while others view the gains

favorably. Also playing roles are this year's lack of volatility (Wednesday's drop excluded), concerns about the potential for a forthcoming drop in stock prices and the possibility of a significant international event occurring. AAI members, in aggregate, are not significantly altering their market outlooks in reaction to the record highs for stock prices. While some view the gains favorably, others fret about rising valuations.



This week's AAI Sentiment Survey results:

- Bullish: 23.9%, down 8.9 percentage points
- Neutral: 41.9%, up 4.8 percentage points
- Bearish: 34.3%, up 4.0 percentage points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%

- 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>.

Want to weigh in? Take the survey yourself and see results online at <http://www.aai.com/sentimentsurvey>.

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