

AII Sentiment Survey: Optimism at Second-Highest Level of the Year

Optimism jumped to its second-highest reading of 2013 in the latest AII Sentiment Survey. Accompanying the increase was a drop in pessimism to its lowest level in more than a year.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 10.5 percentage points to 49.0%. This is the highest level of optimism since January 24, 2013 (52.3%). This is also just the second time in the past 10 weeks that bullish sentiment is above its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, fell 2.7 percentage points to 29.5%. This is the first time in five 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, plunged 7.8 percentage points to 21.6%. This is the lowest level of pessimism recorded by our survey since February 9, 2012 (20.2%). The historical average is 30.5%.

Both bullish and bearish sentiment are near the outer edges of what we consider to be normal readings. Though optimism is high and bearish sentiment is low, neither are at unusual levels. One standard deviation above average for bullish sentiment is 49.3%. One standard deviation below average for bearish sentiment is 20.5%.

Since bearish sentiment peaked at 54.5% on April 11, 2013 (nearly a three-year high), it has fallen by a cumulative 32.9 percentage points. Over the same period of time, bullish sentiment has rebounded by a cumulative 29.7 percentage points (from a low of 19.3%).

The market's resilience and the ongoing record highs being set by the Dow Jones industrial average and the S&P 500 index are keeping AII members optimistic about the short-term outlook for stock prices. Also helping sentiment were the first quarter's better-than-expected earnings, signs of continued economic growth and a lack of new bad news. Some investors remain cautious, however, because of current valuations, the actual pace of economic growth and a lack of progress on key issues by the White House and Congress.

This week's special question asked AII members for their opinion of the current dividend yields. Nearly one in four respondents (23%) described current yields as being low or too low. Another 16% described dividend yields as being higher than bond yields. A similar percentage thought dividends

could be or should be raised. Many in this third group expressed a desire for companies to divert money from share buybacks to dividend increases. More than one in five respondents described dividends as either being good or satisfactory.

Here is a sampling of the responses:

- “I would rather see companies pay shareholders with increased dividends than share buybacks.”
- “Getting leaner as we speak. Searching for value more is difficult every day.”
- “Share price increases have pushed dividend yields too low.”
- “Yields could be higher. More cash rich companies should declare dividends than hoarding cash beyond reasonably foreseeable requirements.”
- “Definitely beats the current yield on bonds.”
- “Reasonable considering the other options for income.”

This week’s AAI Sentiment Survey results:

- Bullish: 49.0%, up 10.5 percentage points
- Neutral: 29.5%, down 2.7 percentage points
- Bearish: 21.6%, down 7.8 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 30.6%
- Bearish: 30.6%

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>