

# AII Sentiment Survey: Optimism Falls to a Two-Year Low

Optimism fell to a two-year low according to the latest AII Sentiment Survey, a sign that individual investors have become more cautious about the short-term outlook for stocks. Pessimism rose to a five-week high, while neutral sentiment remained above 40% for a second consecutive week.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 4.4 percentage points to 27.2%. This week's reading is tied with April 17, 2014, for the lowest level of optimism since April 2013. The drop puts bullish sentiment below its historical average of 39.0% on consecutive weeks for the first time since June 19 through August 7, 2014.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined by 1.6 percentage points to 41.4%. Neutral sentiment remains above its historical average of 30.5% for the 11th consecutive week. This is the longest such streak since a 32-week stretch of above-average readings between January 9 and August 14, 2014.

Bearish sentiment, expectations that stock prices will fall over the next six months, jumped 6.1 percentage points to 31.5%. This is a six-week high. It is also the first time pessimism is above its historical average of 30.5% since February 5, 2015.

Bullish sentiment is in the midst of a five-week, 19.8-percentage-point plunge. The drop has now put optimism at an unusually low level (more than one standard deviation below its historical average). At the same time, bearish sentiment has risen by a cumulative 13.6 percentage points.

Neutral sentiment remains at an unusually high level (more than one standard deviation above its historical average). Historically, both unusually low levels of bullish sentiment and unusually high levels of neutral sentiment have been correlated with better-than-average market performance over the following six- and 12-month periods. (See [Analyzing the AII Sentiment Survey Without Hindsight](#) in the June 2014 *AII Journal* for more information.) There is no guarantee history will repeat in the future, however.

The change in sentiment has occurred as the S&P 500 index has experienced an increase in volatility, though the index ended yesterday essentially unchanged from its February 19, 2014, close. In addition to the recent price fluctuations, prevailing valuations, disappointing earnings or guidance from certain companies, geopolitical events, the pace of economic growth and worries that an even larger decline in stock prices could occur are weighing on AII members' short-term market outlook. Keeping some AII members encouraged is the ongoing bull market, sustained economic expansion, earnings growth and still-accommodating monetary policy.

This week's AAI Sentiment Survey results:

- Bullish: 27.2%, down 4.4 percentage points
- Neutral: 41.4%, down 1.6 percentage points
- Bearish: 31.5%, up 6.1 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>.