

AAII Sentiment Survey: Optimism Improves, but Investors Still Fret

Even with a modest increase in optimism and a modest decrease in pessimism, many individual investors continue to fret that stocks are overbought at current levels according to the latest AAII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 2.7 percentage points to 31.0%. Though above 30% for the first time in four weeks, optimism is below its historical average of 39.0% for the seventh consecutive week. This is the longest such streak since August 30, 2012, through November 22, 2012.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, edged up 0.2 percentage points to 33.1%. The historical average is 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, declined 2.9 percentage points to 35.9%. Even with the decline, pessimism is above its historical average of 30.5% for the ninth time in 11 weeks.

We are continuing to see a decline in bearish sentiment. Since spiking to 54.5% on April 11, 2013, pessimism has pulled back by a cumulative 18.6 percentage points. The pendulum has not fully swung back the other way, however, with bullish sentiment only rising by a cumulative 11.7 percentage points over the same time frame. This week's readings are, however, well within the normal ranges we have seen throughout the survey's history.

Some individual investors do remain hopeful that stocks can continue their upward run. Many others are concerned that stock prices have moved too far, too fast, particularly given the pace of economic growth. Frustration with Washington is also playing a role in keeping some investors pessimistic.

This week's special question asked AAII members for their opinion of Apple (AAPL) becoming the largest dividend payer in the S&P 500. Approximately 40% of respondents said the recent increase is good for shareholders or was overdue. More than 10% viewed the large dividend as a sign either that the company's days of strong growth are over or that the market will start viewing Apple as a value stock. About 15% of respondents were apathetic, saying the news does not affect their portfolios. Other responses varied from those who thought Apple was pressured to raise the dividend to a few who wonder if the company has lost its ability to innovate.

Here is a sampling of the responses:

- “A good move for the company.”
- “Returning value to shareholders is important.”
- “Good news. If they can’t use the cash for a better return through investments, then they should return it to shareholders.”
- “Would prefer investing in new products. Apple needs a new hit; something everybody wants before they even know they want it.”
- “A sign of successful and maturing company. Is its growth sustainable?”
- “Growth slows; Apple is becoming a value stock.”

This week’s AAI Sentiment Survey results:

- Bullish: 31.0%, up 2.7 percentage points
- Neutral: 33.1%, up 0.2 percentage points
- Bearish: 35.9%, down 2.9 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>