

## AII Sentiment Survey: Optimism Stays Near 50%

Optimism remained near 50% as many individual investors are encouraged about the short-term outlook for stock prices, according to the latest AII Sentiment Survey. Neutral sentiment rose this week, while pessimism declined further.

Bullish sentiment, expectations that stock prices will rise over the next six months, declined 0.3 percentage points to 49.4%. Optimism is above its historical average of 39.0% for the fourth consecutive week and the 11th out of the past 12 weeks.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, rose 1.7 percentage points to 29.6%. Even with the increase, neutral sentiment remains below its historical average of 30.5% for the fifth time in the past six weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, declined by 1.4 percentage points to 21.1%. This week's decline puts pessimism at a nine-week low and brings the two-week drop to a cumulative 12.6 percentage points. The historical average is 30.5%.

Bullish sentiment is above 49% on consecutive weeks for the first time since February 3 and February 10, 2011. Even with this week's decline, optimism remains at unusually high levels (more than one standard deviation above average). Past readings of unusually high optimism have typically been followed by lower-than-average levels of market gains, as I explained in the [June 2014 AII Journal](#).

Bearish sentiment is near the bottom of its typical range. A drop below 20.5% would put bearish sentiment at an unusually low level (more than one standard deviation below average). In the past, unusually low readings have been followed by modestly lower-than-average six- and 12-month gains in the S&P 500.

As I discussed last week, many individual investors viewed this month's bout of downward volatility as a buying opportunity. The pullback in the S&P 500 index and the correction in the Russell 2000 index made valuations more attractive and helped to alleviate concerns about stock prices having moved too far upward too fast. Also contributing to the level of optimism are earnings growth, sustained economic expansion and the Federal Reserve's tapering of bond purchases. Keeping some AII members cautious are worries that a larger drop in stock prices is forthcoming, a sense that prevailing valuations are still too high, geopolitical events, the pace of economic growth and Washington politics.

## AII Sentiment Survey results:

- Bullish: 49.4%, down 0.3 percentage points
- Neutral: 29.6%, up 1.7 percentage points
- Bearish: 21.1%, down 1.4 percentage points

## Historical averages:

- Bullish: 39.0%
- Neutral: 30.5%
- Bearish: 30.5%

The AII Sentiment Survey has been conducted weekly since July 1987 and asks AII 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.aaii.com/sentimentsurvey>.