

AAII Sentiment Survey: Pessimism at Lowest Level since January 2012

Pessimism plunged to a 21-month low and optimism rose to a 10-month high in the latest AII Sentiment Survey. Neutral sentiment rose.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 2.9 percentage points to 49.2%. This is the highest level of optimism registered by our survey since January 24, 2013. It is also the fifth time in the past seven weeks that bullish sentiment is above its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, rose 4.4 percentage points to 33.2%. This is the first time in three weeks neutral sentiment is above its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, plunged 7.3 percentage points to 17.6%. This is the lowest pessimism has been since January 12, 2012. (It was also at 17.2% on January 5, 2012.) Bearish sentiment has now been below its historical average of 30.5% for five times in the past seven weeks.

This week's readings almost replicates the readings of January 12, 2012: bullish at 49.1%, neutral at 33.7% and bearish at 17.2%. While history does not always repeat, it is interesting to look at. Bullish sentiment was above average for 15 out of 16 weeks from December 15, 2011 through March 29, 2012. This optimism was accompanied by a 16% rise in the S&P 500.

Pessimism has fallen by a cumulative 16.0 percentage points over the past two weeks and is now at an unusually low level (more than one standard deviation below average). Bullish sentiment is right at the top of its typical range. These readings come as the S&P 500 is within striking distance of its best calendar year return since 2003. Rising stock prices, better-than-forecast third-quarter earnings, and economic growth are keeping individual investors optimistic. Concerns about slow economic growth, stock valuations, and the lack of a long-term fiscal solution have not gone away, however, and remain front and center for some individual investors.

This week's special question asked AII members how, if at all, the latest federal budget agreement is influencing their six-month outlook for stocks. Responses were mixed. The largest group of respondents (41%) said it was not influencing their outlook. Some of these members said they are more focused on corporate earnings and the economic backdrop or simply take a long-term view towards investing. Nearly 21% of respondents said they are cautious. Concerns about another

standoff occurring in January or February was the primary reason why, though some respondents also thought the latest agreement merely postponed the date for dealing with the debt reduction and other fiscal issues. Nearly 18% said they are bearish, with some fretting about a market pullback occurring in the first quarter and others frustrated with the lack of progress on fiscal issues. About 9% said they are now more optimistic.

Here is a sampling of the responses:

- “No change. I invest for the long haul.”
- “Not at all. I think the economy is the most influential factor in determining the direction the stock market takes.”
- “I’m bullish for the next three months, and then I’ll wait and see.”
- “The agreement was nothing more than another ‘kick the can down the road!’”
- “I don’t expect another compromise by January or February, and the market will react negatively.”
- “I would probably be bullish if the clowns in Washington had actually been able to pass a budget.”

This week’s AAI Sentiment Survey results:

- Bullish: 49.2%, up 2.9 percentage points
- Neutral: 33.2%, up 4.4 percentage points
- Bearish: 17.6%, down 7.3 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>