

# AII Sentiment Survey: Pessimism Declines, But Optimism Stays Below Average

Pessimism declined this week, though the rebound in optimism was not enough to push it back above its historical average in the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 3.5 percentage points to 33.0%. This is the third consecutive week and the 13th out of the last 16 weeks that optimism has been below its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, edged up 0.9 percentage points to 32.4%. This is the third consecutive week and the ninth in the past 12 weeks that neutral sentiment is above its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, fell 4.4 percentage points to 34.6%. This is the second consecutive week that pessimism is above its historical average of 30.5%.

We are continuing to see volatility in sentiment, a sign of the ongoing uncertainty about market direction. As I noted last week, bullish sentiment has fluctuated within a 26.1-point range and bearish sentiment has fluctuated within a 32.9-point range since the start of March. This week's readings for bullish, neutral and bearish sentiment are all within their typical historical ranges.

Worries about the effect of a change in Federal Reserve policy lessened this week. Prevailing valuations, the slow pace of economic growth and a lack of progress on key issues by the White House and Congress continue to concern many AII members. Others, however, are encouraged by the length of the current rally and signs of continued economic growth.

This week's special question asked AII members what economic trends they are currently watching. The state of the labor market was the most popular trend, named by 36% of respondents. Interest rates and the bond market was a close second, listed by 32% of respondents. Federal policy ranked third, cited by 17% of respondents. Notably, Japan is being monitored as closely as China is, with 7% of respondents saying they were following events in one or both countries. (Many AII members listed more than one economic indicator in response to the special question.)

This week's AII Sentiment Survey results:

Bullish: 33.0%, up 3.5 percentage points

Neutral: 32.4%, up 0.9 percentage points

Bearish: 34.6%, down 4.4 percentage points

Historical averages:

Bullish: 39.0%

Neutral: 30.5%

Bearish: 30.5%

A new historical analysis of the AAI Sentiment Survey found that a correlation between low levels of optimism and good stock market performance over the following six- and 12-month periods exists. The analysis (Is the AAI Sentiment Survey a Contrarian Indicator?) is published in the June 2013 AAI Journal.

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>

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