

AII Sentiment Survey: Pessimism Drops, But Investors Still Bearish

Though bearish sentiment pulled back to within its normal range, individual investors remain pessimistic overall about the short-term direction of stock prices, according to the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 1.4 percentage points to 28.3%. Even with the increase, optimism remained below its historical average of 39% for the sixth 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, jumped 8.0 percentage points to 32.9%. The historical average is 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, fell 9.4 percentage points to 38.8%. Since spiking to 54.5% on April 11, 2013, pessimism has pulled back by a cumulative 15.7 percentage points. Nonetheless, bearish sentiment remains above its historical average of 30.5%.

The improvement in bullish sentiment puts it right at one standard deviation below its historical average, or the tip of where we would consider it to be unusually low. The decline in bearish sentiment puts it back within the typical range of readings we have seen throughout the survey's history.

Though bearish sentiment declined for the second consecutive week, more individual investors remain pessimistic than optimistic about the short-term direction of stock prices. Concerns that stock prices have moved too far, too fast, the recent increase in market volatility, slow earnings growth, mixed views about the pace of economic growth and ongoing frustration with Washington are all playing a role.

This week's special question asked AII members how attractive U.S. stocks are relative to other asset classes, such as bonds, foreign stocks and precious metals. Slightly more than half of all respondents (52%) said U.S. stocks were the most attractive asset class. About 10% said foreign stocks are more attractive. Approximately one-quarter of respondents (26%) described U.S. stocks as overvalued, overbought or not attractive, however.

This week's AII Sentiment Survey results:

- Bullish: 28.3%, up 1.4 percentage points
- Neutral: 32.9%, up 8.0 percentage points
- Bearish: 38.8%, down 9.4 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>