

AAII Sentiment Survey: Pessimism Jumps, Optimism Plunges

Pessimism among individual investors jumped, while optimism fell to levels not seen in about four months, according to the latest AAI Sentiment Survey. The moves reversed the changes recorded in last week's survey results.

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 8.7 percentage points to 35.5%. Optimism was last lower on October 2, 2014 (35.4%). This is the second time in three weeks, but just the fourth time in the past 26 weeks, that optimism is below its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, declined 1.4 percentage points to 32.1%. Even with the decline, neutral sentiment is above its historical average of 30.5% for the fifth consecutive week.

Bearish sentiment, expectations that stock prices will fall over the next six months, reversed last week's drop and surged by 10.0 percentage points to 32.4%. This is the largest amount of pessimism recorded by our survey since October 16, 2014 (33.7%). It is also the second time in three weeks, but just the fifth time in the past six months, that bearish sentiment is above its historical average of 30.5%.

The 3.1 percentage-point difference between bullish and bearish sentiment is the narrowest spread since July 31, 2014 (0.0). The bull-bear spread was last negative on August 7, 2014 (-7.3), when pessimism exceeded optimism.

A combination of recent price volatility and fourth-quarter earnings reports have contributed to the recent swings in both bullish and bearish sentiment registered by our survey over the past few weeks. Keeping AAI members encouraged is the overall upward momentum of stock prices, falling energy prices, earnings growth and sustained economic expansion. Causing other members to be cautious or pessimistic are disappointing earnings or guidance from certain companies, geopolitical events, the impact of falling oil prices on energy stocks, a sense that prevailing valuations for stocks are too high, the pace of economic growth and worries that an even larger decline in stock prices could occur.

This week's AAI Sentiment Survey results:

- Bullish: 35.5%, down 8.7 percentage points
- Neutral: 32.1%, down 1.4 percentage points

- Bearish: 32.4%, up 10.0 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>.