

AII Sentiment Survey: Slightly Less Optimism and Slightly More Pessimism

Individual investors are slightly less optimistic and slightly more pessimistic than they were a week ago, according to the latest AII Sentiment Survey. Even with the changes, the sentiment readings are close to their historical averages.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 2.3 percentage points to 38.5%. The decline puts optimism below its historical average of 39.0% for the 10th time in 12 weeks.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, rose 0.4 percentage points to 32.2%. This is the fourth consecutive week that neutral sentiment is above its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rose 1.9 percentage points to 29.3%. This is the first time pessimism has risen in five weeks. The historical average is 30.5%.

All three measures of sentiment are near their historical averages. The bullish sentiment readings reflect the ongoing record highs being set by the Dow Jones industrial average and the S&P 500 index, better-than-forecast earnings, signs of continued economic growth and a lack of new bad news. Keeping some investors cautious or pessimistic are current valuations, the actual pace of economic growth and a lack of progress on key issues by the White House and Congress.

This month's special question asked AII members if they are holding onto stocks they think are overvalued or overbought. Close to 40% of respondents said no, they are not. Nearly a third of respondents, however, said they were. Dividends were the primary reason given as to why respondents were holding to stocks they thought are overvalued or overbought, followed by an adherence to a long-term investment strategy. A couple of respondents opined that there are not any good alternatives to stocks right now.

Here is a sampling of the responses:

- "No. I sell stocks that I think are overvalued and I buy on dips."
- "I'm holding onto a couple that are probably priced over fair value because of their dividend yield."
- "Yes, since I may well be wrong about the valuation. I am a long-term investor, so I don't play

my short-term guesses.”

- “Where else would I put the sale proceeds?”

This week’s AAI Sentiment Survey results:

- Bullish: 38.5%, down 2.3 percentage points
- Neutral: 32.2%, up 0.4 percentage points
- Bearish: 29.3%, up 1.9 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>