Investors’ Cautious Optimism Driven by Prospects of Tax Reform

The number of articles being written about the “dangerous” levels of the U.S. stock market is coming at an ever-increasing rate. And perhaps, for good reason. The Dow Jones industrial average has notched 42 all-time highs in 2017, the S&P 500 index has booked 37 records, while the Nasdaq has ended at a record 49 times so far this year. The Shiller CAPE is at levels not seen since 2011 and AAII’s **Stock Market Dashboard** has not registered a single bearish signal for nearly a month.

Even among AAII members, there is a belief that the stock market is poised for additional gains over the next several months. The AAII Investor Sentiment Survey has seen bullish sentiment among members rise to its highest levels since January the last two weeks, registering above 40%.

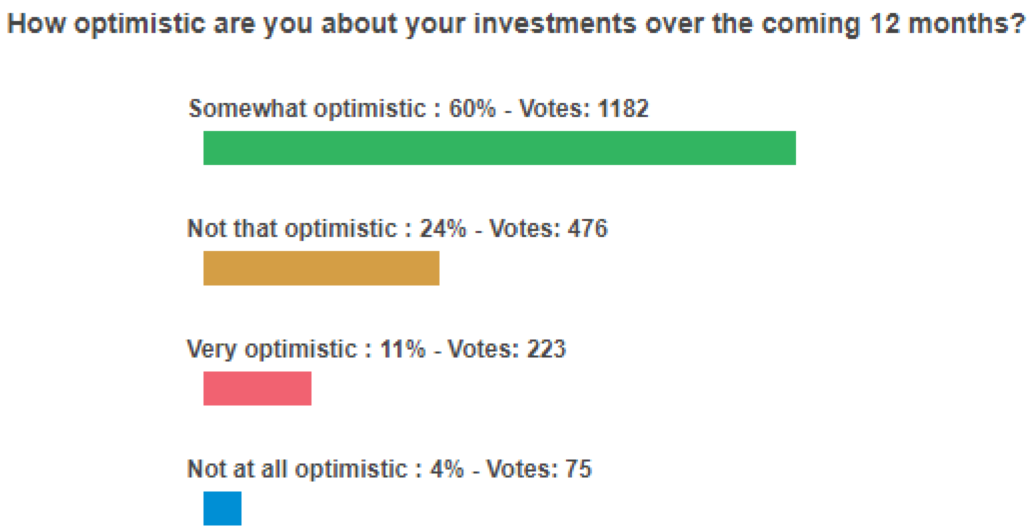
However, the AAII Sentiment Survey simply asks if members are bullish, bearish or neutral about the stock market over the next six months.

AAII Weekly Survey Question

For added color about the level of investor optimism, our latest weekly survey asked our readers the following:

How optimistic are you about your investments over the coming 12 months?

Here are the results:



In all, 1,956 readers responded to the question.

Based on these results, it seems that cautious optimism prevails over retail investors. In all, 60% of readers say they are somewhat optimistic about their investments over the next year.

Less than one-third of respondents—28%—indicated a lack of optimism in their investments over the next 12 months. Only 4% are completely lacking optimism, while 24% say they are not that optimistic.

Perhaps an encouraging sign that "irrational exuberance" isn't sweeping over investors, only 11% of readers are very optimistic about their investments for the coming year.

Weekly Special Question

Having asked the question about readers' optimism regarding their investments over the coming 12 months, we wanted to get an idea of what factors are influencing that optimism, or lack thereof. So last week's special question asked:

> ### What factors are driving your level of optimism about your investments?

In all, 275 readers submitted a response.

Based on the responses we received, the single factor that is driving investor optimism the most is the prospect of tax reform. At a close second, the success or failure of the Trump administration achieving its primary legislative goals, including tax reform, is driving investor optimism.

On the other side of the coin, there is also a number of readers who are worried about market and stock valuations. The third-highest number of responses dealt with high stock prices and overvaluation of the market. Those who feel that a stock market correction is coming ranked fifth.

In fourth place, the strength of the U.S. economy is another key factor driving investor optimism in their investments.

Other factors receiving votes include:

- Strong corporate earnings
- Political unrest and uncertainty (both domestically and globally)

- Rising interest rates
- A “do nothing” Congress
- Rising tensions with North Korea

Here is a sampling of the responses to the special question:

- “Concern over elevated values in stock pricing and concern over credit quality in bonds.”
- “Geopolitical risks, especially North Korea.”
- “The recurring ‘new highs’ in market indices are not sustainable.”
- “A president who stirs up rather than solves problems. A Congress made up of many members who seek personal or party results rather than problem resolution.”
- “Business seems to be doing reasonably well, but the Democratic party still wants to spend someone else’s money for their special projects.”
- “Inability of Congress to accomplish anything that would promote growth and create jobs. Also, we are [near] the end of an economic cycle.”
- “Low unemployment and low inflation with rising earnings.”
- “World tension has muted investment enthusiasm. Also, a more hawkish Federal Reserve could topple the market.”
- “The bull market following the ‘Great Recession’ of 2008 is long in the tooth, well above the historical average and the Fed is raising interest rates. Everything is set up for a significant correction, the only question is exactly when.

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.