

AAII Sentiment Survey: Neutral sentiment remains stubbornly high

Investor optimism and pessimism continues to fall while neutral sentiment remains very high.

Bullish sentiment, expectations that stock prices will rise over the next six months, dropped for the second straight week, falling 1.4 percentage points to 28.3%. After sharply rebounding two weeks ago, optimism is now substantially below its long-term average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, rose 2.2 percentage points to 43.0%. Neutral sentiment has now been increasing for four straight weeks. It also the 18th consecutive week neutral sentiment is above its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, fell 0.8 percentage points to 28.7%. This puts pessimism below its historical average of 30.5% for the third straight week.

The current streak of below-average bullish sentiment readings is the longest since a 13-week stretch between August 30 and November 22, 2012. Neutral sentiment is above its historical average for the longest consecutive period since a 24-week stretch between January 28, 1999, and July 8, 1999. Bearish sentiment has not been above average for three consecutive weeks since August 22 through September 5, 2013.

Neutral sentiment remains very high; this is a characteristic of investors that we have noticed since the beginning of 2014. There are several factors in play. The market environment (low interest rates, Fed bond buying, solid earnings, etc.) is favorable for equities, but factors such as international unrest, European economic fragility and valuations have investors worried. There has not been a strong catalyst to drive investors, and the market, in a clear upward or downward direction.

This week's special question asked AAIL members if they are holding onto stocks they consider to be overvalued or overbought. Responses were mixed, but roughly half of responders flat-out said no, they are not. Roughly 35% of responders said yes, they are, providing reasons such as long-term growth, dividends and a desire to avoid capital gains. A few investors noted that they did not believe the market was overvalued.

Here is a sampling of the responses:

- “No, I am holding those I believe are fairly valued and not overbought.”
- “The stocks I have are longer-term investments. They may at times be overvalued/overbought, but I am not a trader. I aim to keep fees low and grow dividends/stock value.”
- “Yes. I have found that too often I outsmart myself. I may think a stock is overvalued, but the market often doesn’t agree.”
- “No. I can always buy back in if the data says it is reasonable to do so.”
- “Once a stock is overvalued it is sold. Then I purchase an undervalued stock or wait until I find a value stock.”

This week’s Sentiment Survey results:

- Bullish: 28.3%, down 1.4 percentage points
- Neutral: 43.0%, up 2.2 percentage points
- Bearish: 28.7%, down 0.8 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>