

AAII Sentiment Survey: Optimism Falls Back Below Average



Bullish sentiment retreated and pessimism reached a four-week high in the latest AII Sentiment Survey.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 7.2 percentage points to 34.7%. Optimism is now at a four-week low. Bullish sentiment is also below its historical average of 39% for the 21st time in the past 22 weeks.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, edged up 0.5 percentage points to 32.6%. This is the fifth consecutive week and the ninth out of the past 11 weeks that neutral sentiment has been above its historical average of 31%.

Bearish sentiment, expectations that stock prices will fall over the next six months, rebounded by 6.8 percentage points to 32.6%. This is the first time since August 2, 2012, that pessimism is above its historical average of 30%.

A pause in the recent rally deflated some of the cautious optimism registered in last week's survey results. Though some investors are encouraged about the continued growth in the U.S. economy, others remained worried about slowing global economic growth, Washington politics and the European sovereign debt crisis.

This week's special question asked AII members whether this year's 12.4% rise in the S&P 500 (as of August 23, 2012) is warranted. Responses were almost evenly split, with those who thought the rally wasn't justified slightly outnumbering those who thought it was justified. Reasons varied, though several members cited the Federal Reserve's actions, weak U.S. economic growth and European sovereign problems as reasons why the rally isn't justified. Conversely, several members pointed to corporate earnings and the lack of better investment alternatives as reasons why stocks should be up this year.

Here is a sampling of the responses:

- "Not warranted since the economy is weak and profit margins are not sustainable."

- “I think the rally is somewhat artificial. It’s propped up by the Federal Reserve’s policies and hype.”
- “I’m not totally sure what’s causing it. Too many negative areas globally to be that optimistic (China, the Fed, Europe, etc.).”
- “Yes, it is warranted. Where else is there to put your money and get a decent return?”
- “I think last year’s flat market and this year’s corporate earnings support the 12% rise.”
- “Stock prices are catching up with corporate earnings and balance sheet strength, so yes, the rally is warranted.”

This week’s AAI Sentiment Survey results:

- Bullish: 34.7%, down 7.2 percentage points
- Neutral: 32.6%, up 0.5 percentage points
- Bearish: 32.6%, up 6.8 percentage points

Historical averages:

- Bullish: 39%
- Neutral: 31%
- Bearish: 30%

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?a=blog>