

AII Sentiment Survey: Optimism Falls to Lowest Level in a Year

Optimism among individual investors is now at levels not seen in 12 months, according to the latest AII Sentiment Survey. Neutral sentiment, meanwhile, is above average for the 15th consecutive week.

Bullish sentiment, expectations that stock prices will rise over the next six months, fell 1.3 percentage points to 27.2%. Optimism was last lower on April 18, 2013. Bullish sentiment is also now below its historical average of 39.0% for the fifth consecutive week.

Neutral sentiment, expectations that stock prices will stay essentially unchanged over the next six months, rebounded by 1.1 percentage points to 38.5%. This puts neutral sentiment above its historical average of 30.5% for the 15th consecutive week. The last time a similar streak occurred was in 1999.

Bearish sentiment, expectations that stock prices will fall over the next six months, edged up 0.1 percentage points to 34.3%. The modest increase puts pessimism at a 10-week high. It also puts bearish sentiment above its historical average of 30.5% on back-to-back weeks for the first time since January 30 and February 6, 2014.

Bullish sentiment is now at an unusually low level, or more than one standard deviation below its historical average. Historically, such readings have been a contrarian signal. Optimism can stay at below-average levels for a period of time, however. It is also important to realize that many AII members are long-term investors and do not make portfolio decisions solely based on changes in their short-term expectations.

The drop in bullish sentiment comes as downward volatility has returned to the market. The recent decline in stock prices has heightened concerns that a market top has been formed and that valuations may have become too high. Also playing a role is the pace of revenue growth, the slow rate of economic expansion and Washington politics. Keeping some individual investors from being pessimistic is earnings growth, economic expansion, the Federal Reserve's tapering of bond purchases and low interest rates.

This week's special question asked AII members what they think about the decline experienced by highly valued momentum stocks such as Netflix (NFLX) and Facebook (FB) since the start of March. About 60% of respondents said these stocks were overvalued and/or that they were not surprised to see the share prices fall. A small number of respondents (5%) thought the declines are a precursor to a further decline in the broad market indexes.

Here is a sampling of the responses:

- “About time. They were way overpriced for their revenue models and long-term outlooks.”
- “They were overvalued and are still overvalued!”
- “They didn’t deserve their valuation and needed to be knocked down.”
- “I am glad I did not buy into the hype or the noise.”

This week’s AAI Sentiment Survey results:

- Bullish: 27.2%, down 1.3 percentage points
- Neutral: 38.5%, up 1.1 percentage points
- Bearish: 34.3%, up 0.1 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>