

AII Sentiment Survey: Optimism Jumps to a 3-Month High

Optimism rose to a three-month high in the latest AII Sentiment Survey, despite the fiscal standoff in Washington, D.C. Pessimism, meanwhile, fell to its lowest level in a month.

Bullish sentiment, expectations that stock prices will rise over the next six months, jumped 4.9 percentage points to 46.3%. This is the highest level of optimism registered by our survey since July 11, 2013. It is also the fourth time in the past six weeks bullish sentiment is above its historical average of 39.0%.

Neutral sentiment, expectations that stock prices will stay essentially unchanged, rose 3.7 percentage points to 28.8%. This is the fourth time in the past six weeks neutral sentiment is below its historical average of 30.5%.

Bearish sentiment, expectations that stock prices will fall over the next six months, plunged 8.7 percentage points to 24.9%. The drop puts pessimism at a five-week low. Bearish sentiment is also below its historical average of 30.5% for the fourth time in six weeks.

Both bullish and bearish sentiment remain within their typical historical ranges.

Short-term optimism rose among AII members despite the government shutdown and the threat of the federal government defaulting on its debt. Part of the reason for the bullish stance was expectation of a resolution being found. (The survey period runs from Thursday through Wednesday.) The rising stock market was another reason. Better-than-forecast third-quarter earnings are also helping. Concerns about slow economic growth, stock valuations and the lack of a long-term fiscal solution have not gone away, however, and remain front and center for some individual investors.

This week's special question asked AII members for their opinion of Janet Yellen's nomination to be the next Federal Reserve chairman. Approximately 43% of respondents were pleased with her getting the nod. Several members thought Yellen would continue the current monetary policies, others liked her background and some liked the fact that a woman was nominated. Nearly 15% disagreed with the choice, primarily because they thought Yellen would continue current Federal Reserve policies or viewed her as a supply-side economist. More than 16% of respondents simply said Yellen represents a continuation of current Federal Reserve policy. Some respondents (13%) said they were withholding judgment, did not know enough about her or otherwise were unsure. Though we did not ask about Larry Summers, who was discussed as a potential nominee for the position, 5% of respondents thought Yellen was the better choice.

Here is a sampling of the responses:

- “I think she is an excellent choice and has been with the Fed long enough to be a stable, astute leader.”
- “I am pleased—She is not only extremely well qualified, but she is also a woman. It is time for a woman in this role.”
- “A great choice who will work in the Bernanke manner.”
- “I fear that she will flood the market with too much money, even longer than the current Fed Chairman Ben Bernanke.”
- “A dyed-in-the-wool interventionist who will continue pumping up the money supply.”
- “I know little about her. I’m simply overjoyed that we didn’t reward Larry Summers.”

AII Sentiment Survey:

- Bullish: 46.3%, up 4.9 percentage points
- Neutral: 28.8%, up 3.7 percentage points
- Bearish: 24.9%, down 8.7 percentage points

Historical averages:

- Bullish: 39.0%
- Neutral: 30.5%
- Bearish: 30.5%

The AII Sentiment Survey has been conducted weekly since July 1987 and asks AII 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.aaii.com/sentimentsurvey>