Mastering Market Psychology: A Tactical Tool for Individual Investors

AAII SENTIMENT INVESTING

AAII's New Sentiment Investing Product Open House

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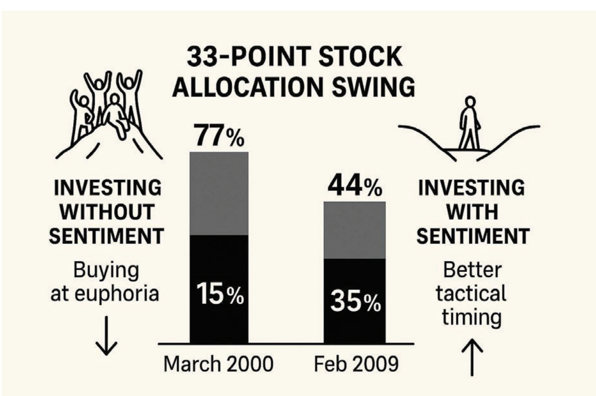
AAII Members: 77% Stocks at 2000 Peak → 44% at 2009 Bottom



- We all make buy and sell decisions—sentiment helps us make them better
- Transform inevitable portfolio decisions into formed ones

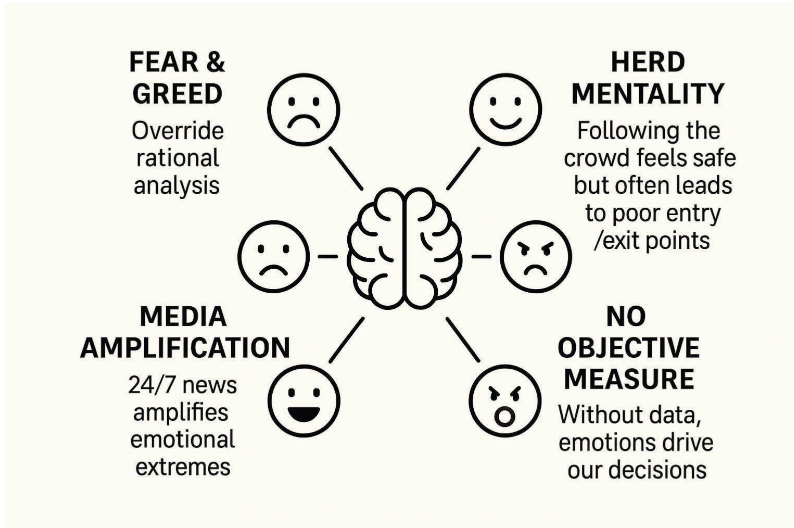
Your Journey to Better Market Intelligence

- Why market psychology drives investment outcomes
- How AAII measures sentiment with 37 years of data
- The complete Sentiment Investing dashboard
- AI-assisted historical pattern recognition
- How to integrate this into your investment process
- Membership details and exclusive webinar offer

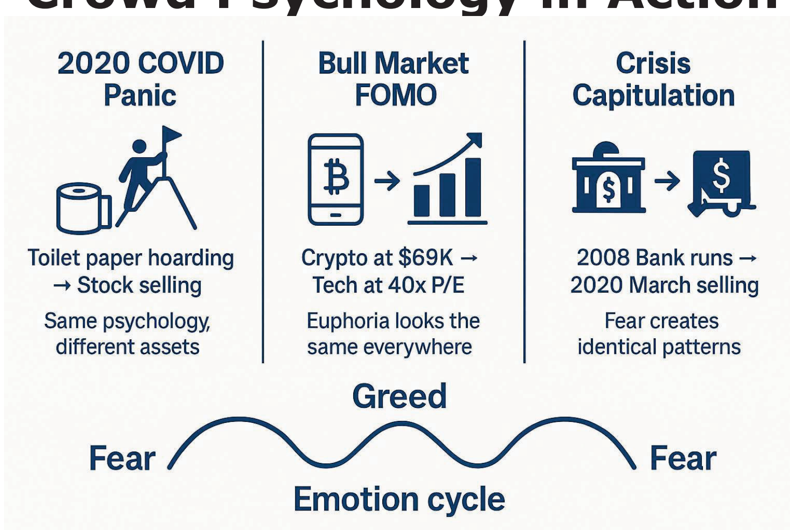
Poll Question

- What’s your biggest challenge when markets get volatile?
  - Keeping my emotions in check
  - Knowing if or when to act
  - Finding reliable signals
  - Understanding market context
  - All of the above

Markets Are Human— Humans Are Emotional



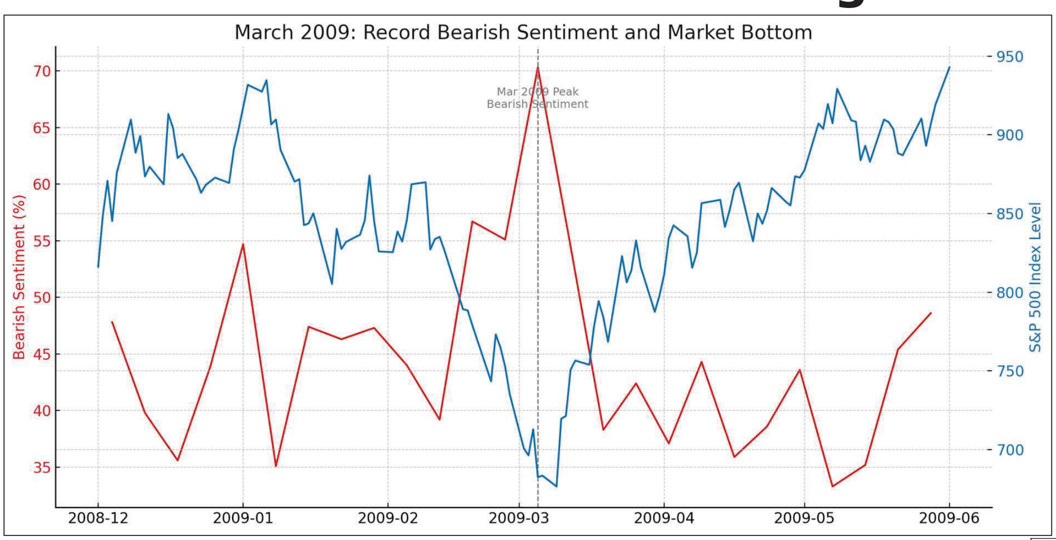
Market Sentiment = Crowd Psychology in Action



When Readings Become Actionable

- Bullish Extremes
- Bearish Extremes
- Statistical significance of these levels
- Know when extreme are hit

When Emotions Reach Breaking Points



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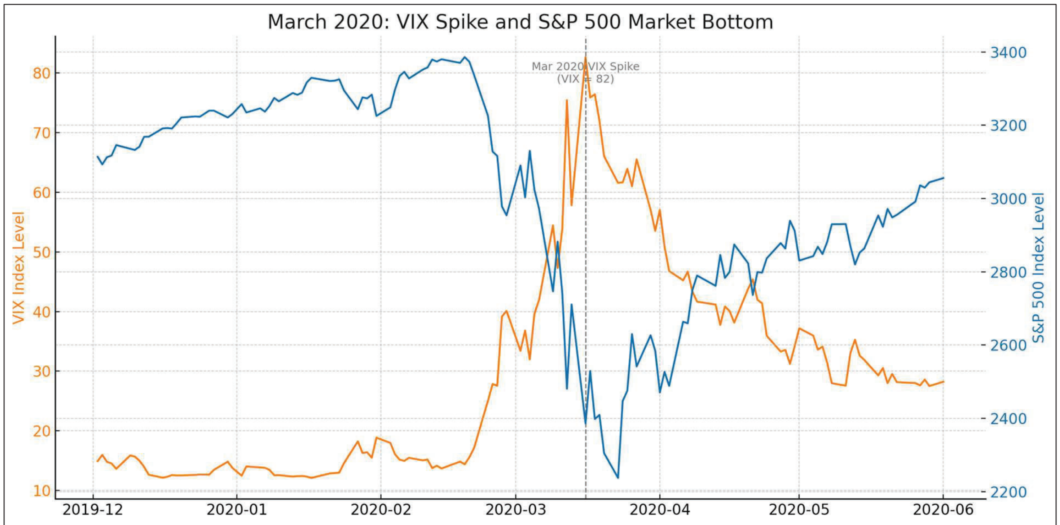


Extreme Investor Sentiment & Market Returns

- Bullish Sentiment
  - Only five times (0.25%) when bullish sentiment was at least three standard deviations above the mean (1,979 weekly observations)
    - 1/6/2000, 11/29/2001, 6/26/2003 & 1/22/2004
    - +0.6% average 1-year S&P 500 return
  - Sixty-three (3.2%) occurrences when bullish sentiment was two or more standard deviations above the mean
  - Eighteen occasions (0.91%) when bullish sentiment was at least two standard deviations below the mean
    - Latest was 4/27/2022
    - +18.1% average 1-year S&P 500 return

Extreme Investor Sentiment & Market Returns

- Bearish Sentiment
  - There were seven times (0.35%) when bearish sentiment was three standard deviations above the mean
    - Last time was 9/28/2022
    - +24.5% average 1-year S&P 500 return (versus ~10% for S&P)
  - Twelve times (0.61%) when bearish sentiment was two standard deviations below the mean
    - Last time was 1/15/2004
    - -7.0% average 1-year S&P 500 return

VIX: The Market's "Fear Gauge"

- High VIX ≥ 30 (Fear)
  - 22.3% average 1-year S&P 500 return
  - 87% win rate
  - 734 events since 1990
- Panic VIX ≥ 40 (Extreme Fear)
  - 33.5% average 1-year S&P 500 return
  - 97% win rate
  - 208 events
- Significantly low VIX values have generated average 1-year returns since 1990

Arms Index (TRIN)

- Extreme High TRIN (≥2.83)
  - 16.73% average 1-year S&P 500 return
  - 95% win rate
- Extreme Low TRIN (≤0.40)
  - 16.00% avg 1-year S&P 500 return
  - 97.4% win rate
- High TRIN outperforms at shorter horizons
  - Contrarian edge most pronounced 1-26 weeks

Yield Curve Extremes

- Extreme Inversions (10Y – 2Y spread) = Mixed Contrarian Signals
  - Short-term pain, long-term gain: Most inverted curves (bottom 5 percentiles) average +9.8% after 52 weeks
  - Pattern holds: 70% win rate over 1 year despite initial 1-4 week weakness
  - Historical context: March 1980 extreme (-2.41 spread) delivered +29.4% in following year
- Ultra-Low 10Y Yields = Strongest Signal
  - Best performer: 16.5% average 52-week returns when 10Y yields ≤1.64%
  - High conviction: 85% win rate over 6 months, 74% over 1 year
  - Recent example: August 2020 low (0.52%) generated +33.8% forward return
- Steep Curves (10Y – 2Y spread) = Consistent Winners
  - Most reliable: 96% win rate over 52 weeks when curves very steep (95th percentile)
  - Lower volatility: More predictable outcomes with 10.1% average returns
  - Risk-adjusted champion: Best Sharpe ratio across all scenarios

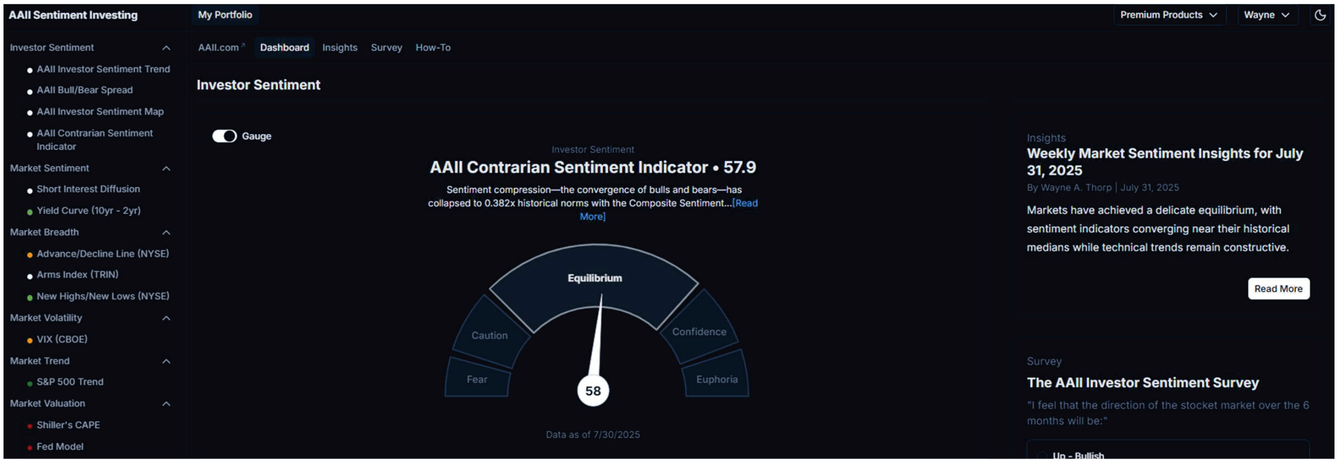
Advancing & Declining Issues (McClellan Oscillator)

- Extreme oversold MCO readings (≤-425) deliver 100% win rate over 6 months with 18% average returns
  - 39 events since 2010
  - 27.8% average 1-year S&P 500 returns
- Consistency Across Market Cycles
  - 2010-2012 Recovery: 100% win rate, 10% average 6-month returns
  - 2013-2015 Taper Tantrum: 100% win rate, 12% average 6-month returns
  - 2020-2022 Pandemic Era: 100% win rate, 30% average 6-month returns

AAII's Sentiment Investing

- Decades of uninterrupted data across multiple indicators
- Investor Sentiment: AAII Investor Sentiment Survey (37 years)
- Market Sentiment: Yield Curve (10yr-2yr) (49 years)
- Market Breadth: Advance/Decline Line (NYSE), Arms Index (TRIN), New Highs/New Lows (NYSE)
- Market Volatility: VIX (CBOE) (35 years)
- Market Trend: S&P 500 Trend (97 years)
- Market Valuation: Shiller's CAPE, Fed Model (55 years)

Your Sentiment Command Center



AAII's Proprietary Market Psychology Gauge

- The AAII Contrarian Sentiment Indicator is built on AAII's weekly Investor Sentiment Survey
  - Tracks shifts in individual investor psychology and market expectations over 40+ year history
- Contrarian Signal Logic
  - Extreme bullish readings (>60%) often coincide with market tops—"everyone's already bought"
  - Extreme bearish readings (<20%) frequently mark market bottoms—"maximum pessimism = maximum opportunity"
  - Works because retail investors tend to extrapolate recent trends into the future
- Key Analytical Framework
  - Sentiment Compression: When bulls/bears converge, volatility expansion often follows
  - Participation Dynamics: High engagement with low conviction signals fragile consensus
  - State Velocity: Rapid sentiment transitions indicate unstable market equilibrium
  - Neutral Surge: Rising indecision above 30% often precedes major market inflections
- Strategic Value for Investors
  - Provides market character assessment beyond simple bull/bear classification
  - Reveals when consensus is both strong and fragile—prime conditions for reversals
  - Helps identify periods of "stored energy" in compressed sentiment environments
  - Most powerful when combined with technical and fundamental analysis for confluence

AI-Assisted Analysis: Sentiment Investing's Competitive Edge

- Current indicator readings and what they mean
- AI-powered historical pattern recognition
- "When we've seen this before" - similar market conditions
- Historical outcomes during comparable periods
- Key differentiator: "We don't just show you the data - we tell you what it meant historically"

From Data to Decisions

- Your 5-Minute Weekly Check-In
- Simple framework:
  1. Check AAII Contrarian Indicator reading
  2. Review Bull/Bear spread for trend confirmation
  3. Confirm with market breadth (Advance/Decline, New Highs/Lows)
  4. Consider valuation context (CAPE, Fed Model)
  5. Read AI-assisted analysis: "When we've seen this before"
  6. Review historical outcomes from similar conditions
  7. Make tactical adjustments within your strategy

Tactical Adjustments, Not Strategic Overhauls

- Use sentiment to make tactical tilts within your existing investment framework
- *Keep your strategic allocation intact*
- Tactical Implementation
  - Make small, temporary adjustments to allocations
  - Revert to strategic weights over time
  - Don’t rely on a single indicator
  - Set clear rules for when to tilt
- The goal is to lower volatility, not necessarily absolute return (boost risk-adjusted return)

Poll Question

- What excites you most about having all this data integrated?
  - The exclusive Contrarian Indicator
  - All indicators in one place
  - Weekly expert analysis
  - Decades of data history
  - The special pricing

The Investment Intelligence You Can't Get Elsewhere

- Differentiators:
  - AAII sentiment data: 37 years of consistent individual investor tracking
  - Exclusive Contrarian Indicator (proprietary calculation)
  - Deep historical databases: CAPE & Fed Model (55 years), S&P 500 trends (97 years), VIX (35 years)
  - AI-assisted historical pattern recognition across decades of data
  - "When we've seen this before" contextual analysis
  - Integration with key market indicators in one dashboard
  - Weekly expert interpretation with historical parallels
  - Built by investors, for investors

In Closing

- Sentiment data, especially at extreme levels, offers potential insights for market direction
- However, sentiment data should be used in conjunction with other indicators
- There is no such thing as an infallible indicator
- Sentiment data can help investors avoid the "herd mentality" and offers a contrarian outlook in investing
- Having a plan in place is critical to avoiding emotional decisions that can destroy wealth

Start Making Emotion-Free Decisions

Join Now & **Save $50** (regularly priced ~~$199~~)

What's Included:

- A dynamic, updated sentiment dashboard
- 10+ key indicators for a comprehensive view of market sentiment, volatility, breadth and valuation
- Weekly insights and commentary on sentiment trends
- Action-oriented takeaways based on sentiment extremes
- Subscriber-only webinars with sentiment-focused market analysis
- Archive of sentiment trends and research
- 30-day money-back guarantee

AAII.com/Sentiment-Special