Investor Sentiment:
Fear, Greed & The Incredible Shrinking Middle

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Segment Overview

- What is investor sentiment?
- Market sentiment as a contrarian indicator
- An overview of the AAII Investor Sentiment Survey
- Historical sentiment levels
- Extreme sentiment levels & market performance
- Introducing AAII's Sentiment Investing
- An overview of the AAII Asset Allocation Survey
- The most followed AAII Stock Idea screens

Gauging Market Sentiment

- Sentiment describes the opinions, emotions or views of a group of investors at a point in time
  - Can be a powerful influencer of security prices, especially in the short run
  - Emotions—rational or irrational—can drive prices
- If you could forecast significant changes in sentiment and knew investors would act on that sentiment, you would have an advantage in determining future market changes
- However, changes in sentiment are only known after the fact

Market Sentiment & Market Direction

- Market sentiment is the summation of all market expectations conditioned by experience and emotions
- But it tends to reflect more where the market *has been* than where it is going
  - No causal relationship between investor sentiment and market direction
- When sentiment is low, the market has already fallen, and vice versa

Market Sentiment as a Contrarian Indicator

- However, history shows us that the market tends to go against the majority
  - Extremely bullish levels of sentiment often come after strong market run-ups when investors are fully invested
    - Even if they are bullish about the future, they have limited resources to invest
    - As inflows dry up, the market often falters

Market Sentiment as a Contrarian Indicator

- Extremely bearish levels of sentiment often come after strong market declines when investors may have taken defensive postures with their portfolios
  - Moved more into cash and/or bonds to preserve capital
    - Even if they are bearish about the future, they have the resources to invest
    - As investors move off the sidelines, the market tends to rebound

Market Sentiment as a Contrarian Indicator

- The historical tendency of the market to move against the majority sentiment offers an opportunity to identify market turning points

Measures of Market Sentiment

- There are different ways to measure market sentiment
  - Surveys of individual and professional investors
  - Trading data analysis
  - Trend analysis in major publications cover stories

Sentiment Surveys

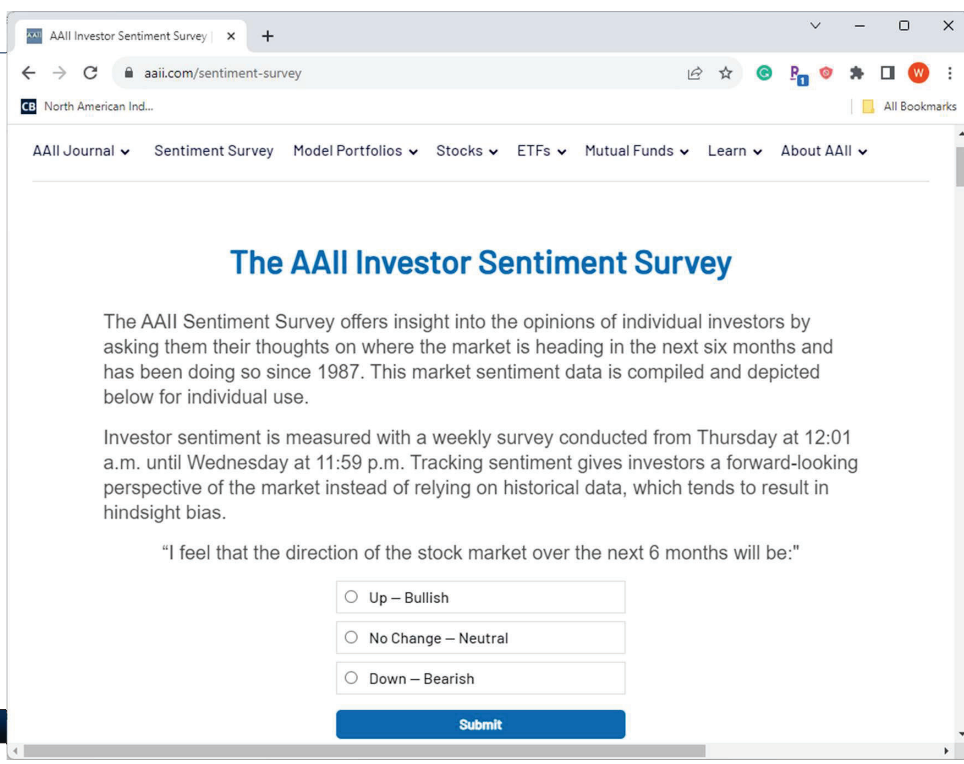
- CNN Fear and Greed Index
- Investors Intelligence U.S. Advisors’ Sentiment Report
- Consensus Inc.’s Consensus Bullish Sentiment Index
- Hulbert’s Newsletter Sentiment Index
- Market Vane Bullish Consensus
- AAII Sentiment Survey

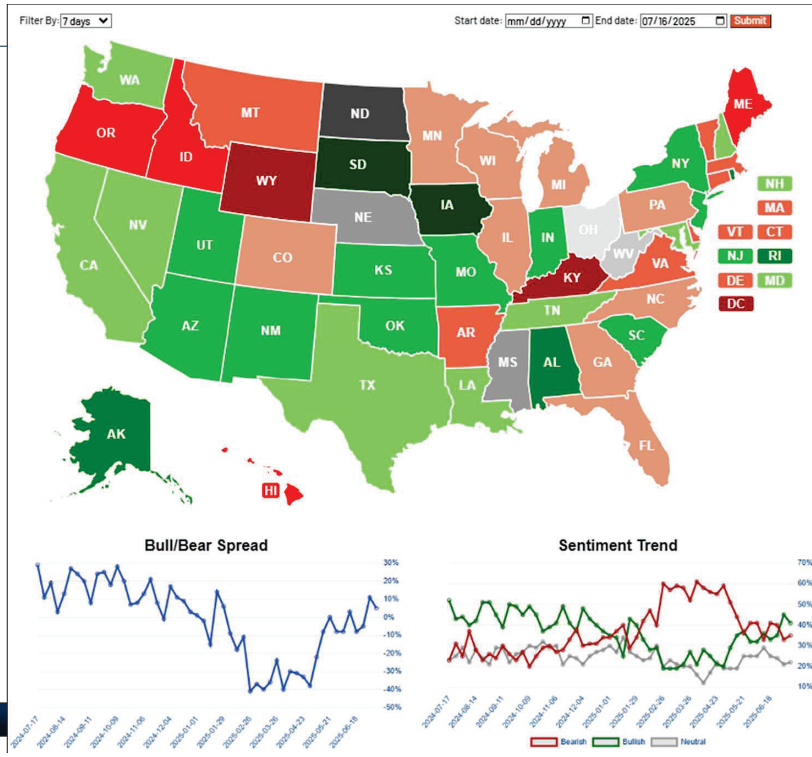
AAII Investor Sentiment Survey

- One of the longest-running surveys of investor sentiment
- Began in July 1987
  - At the time, survey was via U.S. mail
  - Beginning 1/1/2000, survey conducted electronically on AAII.com, with solicitations sent via email to all accessible members
  - Open only to AAII members
  - One person, one vote per week
  - Updated results posted every Thursday on AAII website and published in Barron’s (as the AAII Index)
- Asks members to complete the sentence “I feel that the direction of the stock market over the next 6 months will be”:
  - Bullish, Bearish or Neutral

AAII Investor Sentiment Survey

- Member Demographics
  - Male, approximately 70 years of age
  - Majority have graduate degree (not finance)
  - Over half with investment portfolios of $500,000+ and the median portfolio value is $2.0 million
- Unique from other sentiment surveys in that participants represent mostly affluent, active individual investors





Using Sentiment Data

- Not much to be gleaned from changes in market sentiment
  - Week to week, often moves in tandem with the market
- Most useful when levels of bearishness or bullishness reach extreme levels—highs and lows
  - Contrarian indicator
  - There is a long-running link between sentiment reaching unusual levels and the market changing direction
- Sentiment readings can prompt you to take a step back and assess the broader market environment

Historical Levels

- Historical Averages from July 24, 1987, to July 9, 2025 (1,979 observations)
  - Bullish: 37.6% (Standard Deviation 10.1%)
  - Neutral: 31.4% (Standard Deviation 8.1%)
  - Bearish: 31.2% (Standard Deviation 9.8%)
- Historical Extremes
  - Bullish
    - Max: 75.0% (1/6/2000); S&P Weekly Close: 1,441.47
    - Min: 12.0% (11/16/1990); S&P Weekly Close: 317.12
  - Neutral
    - Max: 62.0% (6/3/1988); S&P Weekly Close: 266.45
    - Min: 7.7% (10/9/2008); S&P Weekly Close: 984.94
  - Bearish
    - Max: 70.3% (3/5/2009); S&P Weekly Close: 712.87
    - Min: 6.0% (8/21/1987); S&P Weekly Close 335.90

AAII AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

Investor Sentiment & Market Returns

- Above Average Sentiment

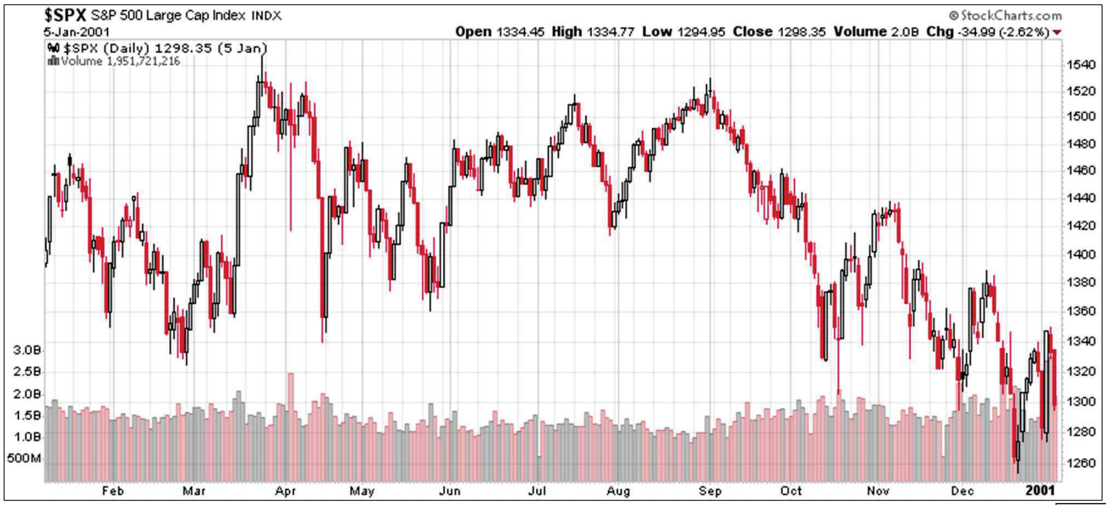
Std Dev	Weeks	Measure	Avg Return %	Median %	Win/Loss	Win Rate %
+3 SD	26	Bullish	2.3	4.4	3/2	60.0
		Neutral	4.7	8.8	5/1	83.3
		Bearish	**15.2**	**14.9**	5/1	83.3
		S&P 500	4.7	5.7	1443/510	73.9
	52	Bullish	1.3	2.8	3/2	60.0
		Neutral	**21.3**	**22.2**	6/0	100.0
		Bearish	**26.8**	**22.6**	6/0	100.0
		S&P 500	9.9	11.4	1534/393	79.6
+2 SD	26	Bullish	0.1	0.9	34/29	54.0
		Neutral	5.1	6.4	45/11	80.4
		Bearish	5.4	6.2	48/25	65.8
		S&P 500	4.7	5.7	1443/510	73.9
	52	Bullish	**-1.7**	1.3	33/30	52.4
		Neutral	14.2	16.3	47/9	83.9
		Bearish	8.7	15.6	49/24	67.1
		S&P 500	9.9	11.4	1534/393	79.6
+1 SD	26	Bullish	2.3	3.8	221/96	69.7
		Neutral	6.3	6.1	247/54	82.1
		Bearish	6.1	7.6	211/86	71.0
		S&P 500	4.7	5.7	1443/510	73.9
	52	Bullish	4.6	7.2	223/86	72.2
		Neutral	12.7	12.6	256/45	85.0
		Bearish	11.7	16.2	226/71	76.1
		S&P 500	9.9	11.4	1534/393	79.6

- Below Average Sentiment

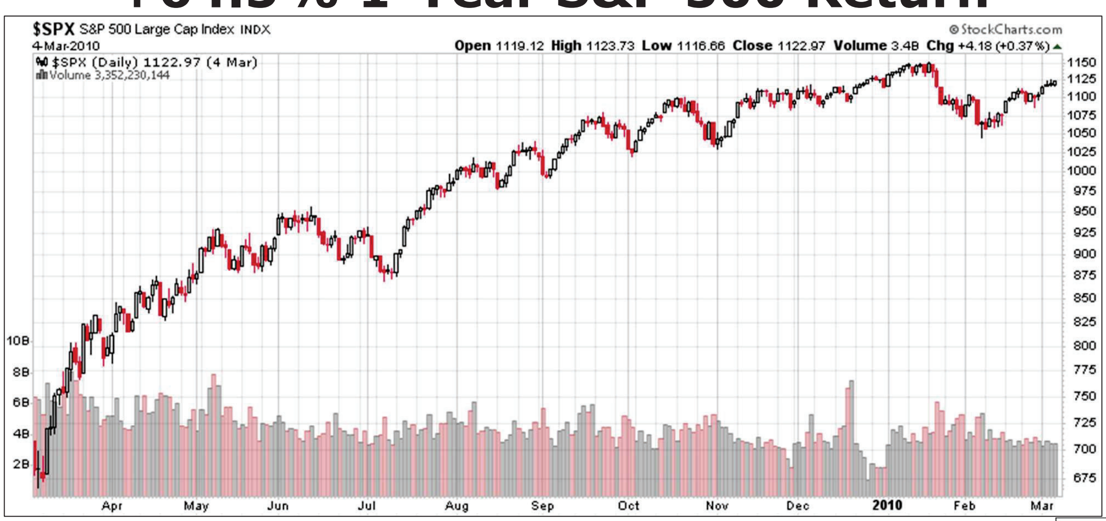
Std Dev	Weeks	Measure	Avg Return %	Median %	Win/Loss	Win Rate %
-1 SD	26	Bullish	6.7	7.0	245/71	77.5
		Neutral	2.5	5.2	202/121	62.5
		Bearish	4.1	4.7	218/70	75.7
		S&P 500	4.7	5.7	1443/510	73.9
	52	Bullish	13.6	15.5	263/53	83.2
		Neutral	4.3	8.8	210/108	66.0
		Bearish	7.7	9.5	218/69	76.0
		S&P 500	9.9	11.4	1534/393	79.6
-2 SD	26	Bullish	**11.0**	**17.4**	16/2	88.9
		Neutral	3.7	0.6	14/14	50.0
		Bearish	**-7.1**	**-2.2**	4/8	33.3
		S&P 500	4.7	5.7	1443/510	73.9
	52	Bullish	**17.8**	**21.1**	16/2	88.9
		Neutral	3.3	4.9	15/13	53.6
		Bearish	**-7.0**	**-4.8**	5/7	41.7
		S&P 500	9.9	11.4	1534/393	79.6

AAII AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

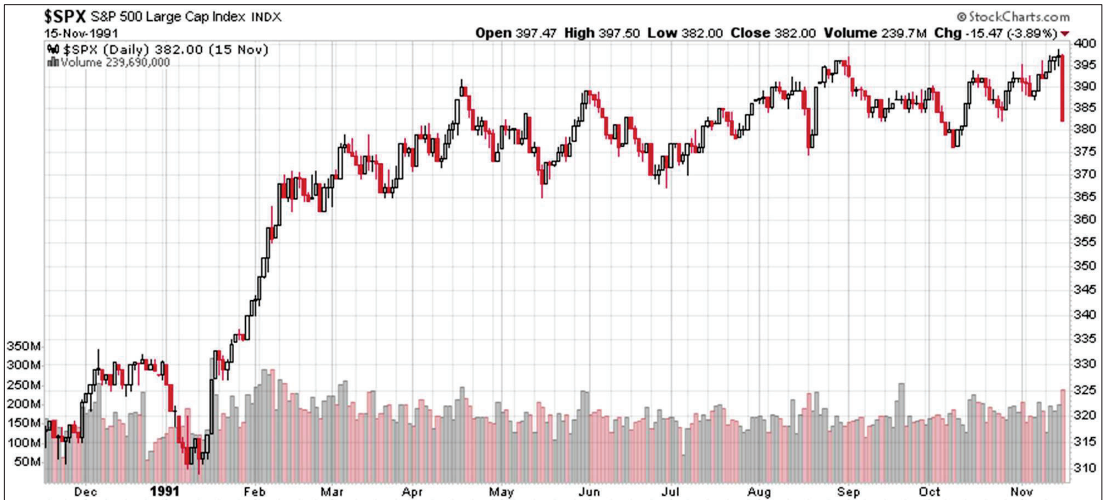
Bullish Max 75.0% 1/6/2000
–5.0% 1-Year S&P 500 Return



Bearish Max 70.3% 3/5/2009
+64.5% 1-Year S&P 500 Return



Bullish Min 12.0% 11/16/1990
+20.7% 1-Year S&P 500 Return



Bearish Min 6.8% 8/21/1987
–22.5% 1-Year S&P 500 Return

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

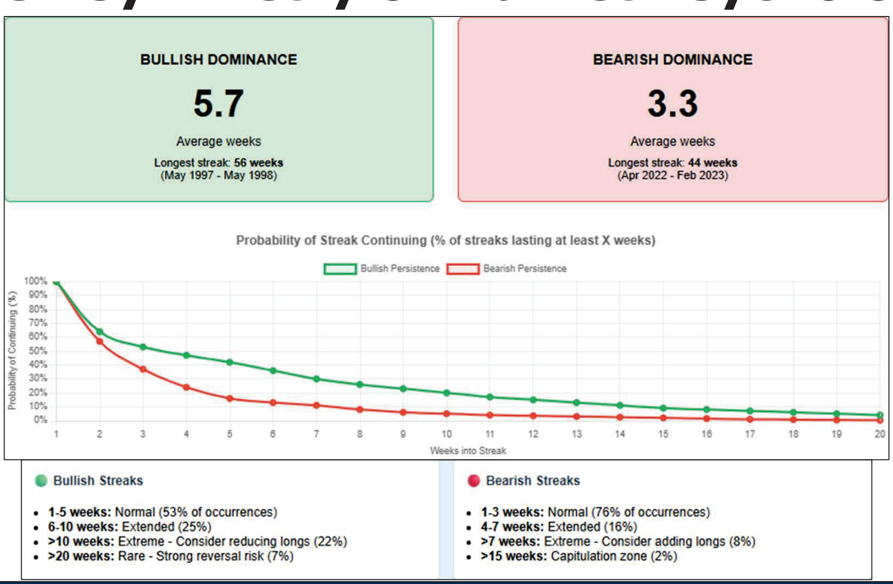
Extreme Investor Sentiment & Market Returns

- 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
  - 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

Extreme Investor Sentiment & Market Returns

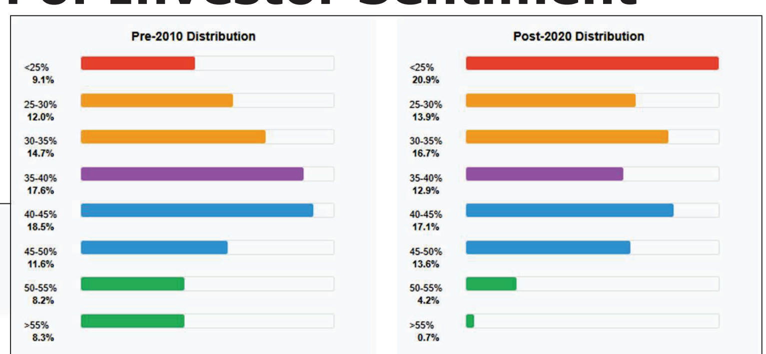
- Max Bull-Bear Spread
  - 6/26/2003 at +62.9% (Bullish 71.4% & Bearish 8.6%)
  - +15.7% 1-year S&P 500 return
- Min Bull-Bear Spread
  - 10/19/1990 at –54.0% (Bullish 13.0% & Bearish 67.0%)
  - +25.6% 1-year S&P 500 return

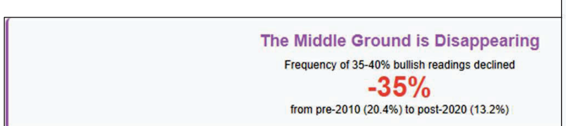
The Asymmetry of Market Psychology

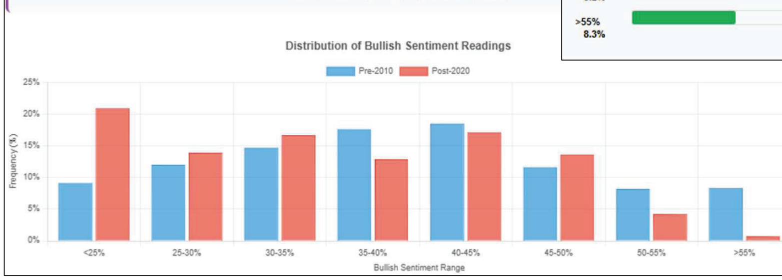


A New Market Regime?

The Polarization of Investor Sentiment



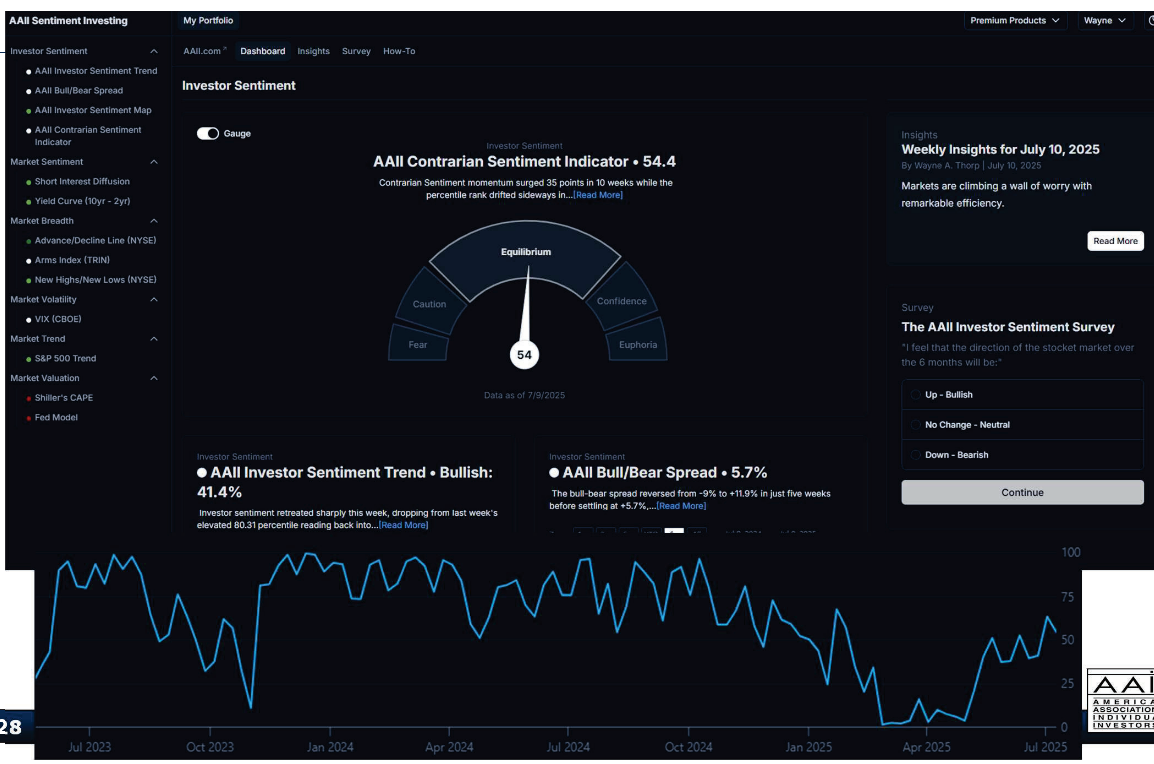




AAII Sentiment Investing

- AAII's newest addition to its Platinum lineup
- A data-driven read of investor sentiment, market breadth and valuation and economic health

- AAII Investor Sentiment
- Short Interest
- Yield Curve
- Advance/Decline
- Arms Index (TRIN)
- New Highs/New Lows
- VIX
- S&P 500 trend/momentum
- Shiller's CAPE
- Fed Model



AAII Asset Allocation Survey

- Each month, AAII members can vote on their current portfolio allocation
  - % Stock Funds
  - % Stocks
  - % Bond Funds
  - % Bonds
  - % Cash (CDs, savings, money market funds, etc.)
- Dating back to November 1987

	Stock Funds	Stocks	Bond Funds	Bonds	Cash		Stocks	Bonds	Cash
Average	31.0%	31.0%	10.0%	6.0%	22.0%		62.0%	15.9%	22.1%
Maximum	42.0%	41.1%	18.8%	14.0%	44.8%		77.0%	25.5%	44.8%
Minimum	16.5%	16.7%	3.0%	1.3%	11.0%		40.8%	6.9%	11.0%
Std. Dev.	6.0%	3.6%	3.3%	2.7%	6.3%		7.8%	3.6%	6.3%

Individual Investors Tend to Chase Performance

- Asset Allocation data indicates that investors follow the market
  - Stock allocation has a +49% correlation with the S&P 500
  - After market drops >5%: They reduce stocks by -0.33% next month
  - After market rallies >5%: They increase stocks by +1.02% next month

Investor Behavior	Allocation Signal	Sample Size	Next 12M Return
Peak Fear	Cash ≥30%	67 months	**14.2%**
High Fear	Stocks <50%	50 months	**17.1%**
Normal	Typical allocations	~300 months	**10.0%**
Peak Greed	Cash <15% AND Stocks >70%	16 months	**-0.9%**

The Limits to the Data

- What DOESN'T Work:
  - Short-term timing: -1% correlation with next month's returns
  - Bond allocations: Stay flat at ~16% regardless of market conditions
  - Extreme thresholds: Cash >35% (21 months) or Stocks <45% (9 months) - sample too small
  - Most allocation changes: Average monthly change is <1% for all assets
- The Reality Check:
  - These signals occur at major bottoms, but **don't time the exact bottom**
  - Example: 2008-2009 crisis
    - Stocks dropped below 50% in October 2008 (S&P at 968)
    - Cash hit 30%+ in November 2008 (S&P at 896)
    - Bottom was March 2009 (S&P at 676)
    - **You would have been early by 5 months and -24%**

Most-Followed AAII Stock Idea Screens

www.aaii.com/stockideas/performance

Strategy	2025 YTD	2024	2023	2022	Annualized Return*	Total Followers
O'Shaughnessy: Tiny Titans Screen	(15.9)	47.7	29.3	13.0	23.3	1,748
O'Shaughnessy: Small Cap Growth & Value Screen	(3.9)	38.9	11.5	(11.4)	18.4	1,349
Buffettology: Sustainable Growth Screen	9.0	20.4	31.8	(13.6)	13.3	1,201
Buffett: Hagstrom Screen	0.7	15.5	28.1	(17.5)	13.2	1,137
O'Neil's CAN SLIM Revised 3rd Edition Screen	28.9	(6.0)	(5.8)	(42.7)	14.8	928
O'Shaughnessy: Growth Screen II	(4.7)	54.1	14.3	8.5	16.5	900
Buffettology: EPS Growth	8.6	21.6	31.0	(19.9)	11.7	881
Graham--Enterprising Investor Revised	(8.5)	(11.5)	34.6	(4.4)	13.2	878
Est Rev: Top 30 Up	3.5	36.5	6.0	(8.5)	21.0	834
O'Neil's CAN SLIM Screen	(20.8)	39.3	18.2	(15.8)	18.1	793
Est Rev: Up 5% Screen	11.4	29.0	22.2	(14.5)	21.5	787
Dividend (High Relative Yield) Screen	2.0	15.4	4.5	1.4	8.6	706
Price-to-Free-Cash-Flow Screen	7.2	(6.9)	23.3	(11.0)	15.7	574
Return on Equity Screen	0.3	29.2	25.1	(8.8)	12.0	534
Dreman With Est Revisions Screen	10.0	16.8	19.1	4.4	14.7	474
Value on the Move--PEG With Est Growth Screen	14.7	25.1	35.6	(21.9)	14.4	427
P/E Relative Screen	3.1	12.0	25.7	(14.7)	13.6	423
Kirkpatrick Value Screen	(54.5)	23.2	29.6	(2.8)	7.7	419
Driehaus Revised Screen	(23.0)	10.4	35.8	(12.6)	15.7	412
O'Shaughnessy: Growth Market Leaders Screen	9.3	34.8	8.4	11.6	9.3	403

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

Accessing AAII Survey Data

- Participation in the weekly Investor Sentiment and monthly Asset Allocation surveys is open only to AAII members
- Sentiment Survey: www.aaii.com/sentimentsurvey
  - Recent history available to members
  - Full history part of Sentiment Investing subscription
- Asset Allocation Survey: www.aaii.com/assetallocationsurvey
  - Full history available to AAII members