



Ian D. Arvin, CFA

ian@innovativequant.com

Twitter: [IQS_Ian](#)

IQS Brief - AAll Bears over Bulls... Is that Bullish?

Overview

The AAll Investor Sentiment Survey measures the percentage of individual investors who are bullish, bearish, and neutral on the stock market for the next six months; individuals are polled from the ranks of the AAll membership on a weekly basis. Only one vote per member is accepted in each weekly voting period. The latest reading for the week ending August 19 is Bearish (more Bears than Bulls), and has been Bearish for each of the past 4 weeks. Is that a Bearish Signal or a Bullish Signal?

Bearish Bullish Spread

The bullish bearish spread is simply the difference between the bullish percentage and the bearish percentage. Out of the over 1400 weekly surveys since July 1987, 70% have been net bullish with only 30% net bearish. The average spread historically has been 8% net bullish. However, the past 4 weeks have seen net bearish spreads, and 8 out of the past 11 weeks have been net bearish. The last time 4 consecutive weeks were net bearish was May 2013, and the last time we had 5 consecutive net bearish weeks was November 2012. But, what does this mean?

Net Bearish Returns

Of the 400+ net bearish spreads over the past 30 years, 67% of the time the net bearish trend ended after 1 to 3 weeks. Only 8% of the time did it trend 4 weeks, and only 5% of the time did it trend for 5 weeks. Of the 36 previous times it trended net bearish for 4 consecutive weeks, the return to the S&P 500 for the following 3 months were positive 72% of the time! The average subsequent 3 month return for all the occurrences of 4 consecutive net bearish signals was a positive 2.3% (and 4.2% if you remove the large negative returns during 2008).



Summary

While the AAI Investor Sentiment Survey measures the bullish or bearish outlook for investors, it is not necessarily a good indicator of 3 month forward looking returns. With the stock market nervously declining this summer with Global and Domestic issues clouding the landscape for investors, it is not unexpected that the survey would be net bearish. However, this indicator alone doesn't mean a correction is forthcoming. It could be an ominous signal, or more likely that the market will climb higher by Thanksgiving.



Exhibit A

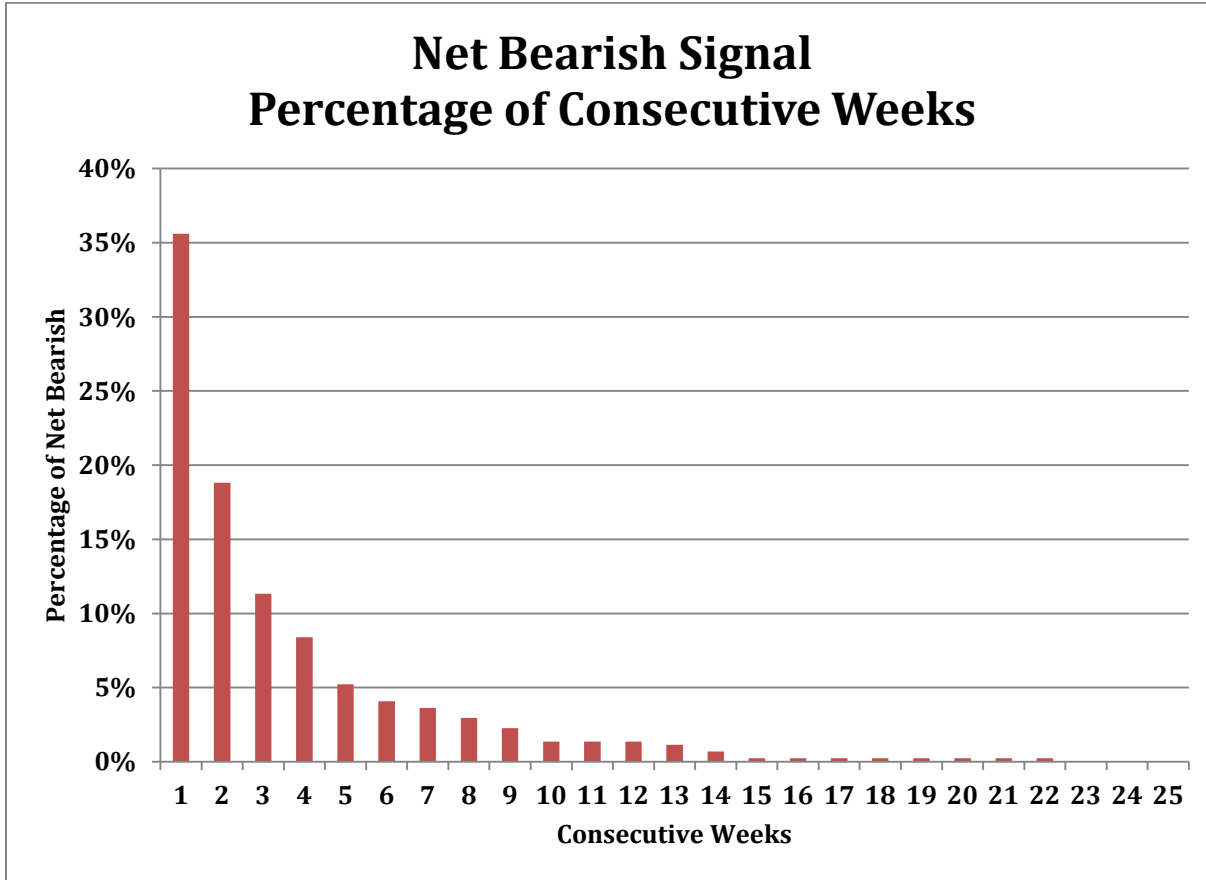




Exhibit B

