



What Are Sentiment Indicators & How To Use Them

What Is Investor Sentiment?

Investor sentiment is the overall attitude of investors toward a particular security or financial market

Why Does It Matter?

- It matters because it describes the overall “feeling & emotions” among the majority of investors
- Emotional driven markets can lead to extremes in price either up or down
- Understanding or being aware of this can create opportunities for those who know how to interpret the information
- Particularly important to “contrarian investors”

What Are The Most Popular Sentiment Indicators?

CBOE Volatility Index - VIX

- Market's expectation of 30-day forward-looking volatility. It's derived from the price inputs of the S&P 500 index options
- The VIX rises when put option buying increases and falls when call buying activity is more robust
- In simplistic terms it measures the "fear" or lack thereof in the market. The higher the VIX the more fear or uncertainty that exists and vis-versa



Put/Call Ratio

- Measures how many put options are being traded relative to calls. Puts divided by calls.
- Rising number means there are more puts being bought. This means investors are making bearish bets or institutions are buying puts for portfolio protection.
- Extreme put buying readings can act as a solid gauge as to the amount of fear that exists among participants



Net New 52 Week Highs & Lows on The NYSE

- When shares are hitting new highs this is a good sign of strength for obvious reasons
- Can be viewed independently or as a ratio called the NYSE Advance/Decline Ratio
- Extremes in these readings are the most useful

Junk Bond (High Yield) Demand

- The demand for low quality bonds can be a good measure of how risk averse investors are at any given time
- Higher Junk bond prices - investors are willing to take on more risk
- Lower junk bond prices - investors are more risk averse



Percentage of Stocks Trading Above 200 Day Moving Average

- 200 day moving average is widely followed as a measurement of bull and bear markets
- If a stock or index is trading above, it's in a bull market. If trading below, it's considered to be in a bear market

Commitment of Traders Report – COT

3 Participants or Components:

- 1. Commercial Hedgers** (Smart Money) – Producers or End Users (Farmers, Miners, Manufacturers)
- 2. Large Traders** (Dumb Money) – Large Institutional Traders (Hedge Funds, Pension Funds etc.)
- 3. Small Traders** (Irrelevant) – Small individual or Private Investors/Traders



American Association of Individual Investor's Stock Sentiment Survey – AAI

- Nonprofit organization of about 150K members whose purpose is to educate individual investors regarding stock market portfolios, financial planning and retirement accounts
- Weekly Survey that shows the percent bullish/bearishness of it's members