**My Sentiments Exactly!**

[Print  [Print this page](https://www.thestreet.com/k/ts/print/15923133.html)](https://www.thestreet.com/k/ts/print/15923133.html)

By Helene Meisler | 02/24/22 - 06:33 PM EST

*Note: I am taking a few days off as my father-in-law passed away this week. The timing isn’t great, but it never is, is it? The next edition of Top Stocks will be Monday evening, Feb. 28.*

I thought it might be good to do a summary of the various sentiment indicators that I like to use, so you might want to save this for reference. As for Thursday’s action, it was a terrific reversal off an oversold condition. It doesn’t change the oversold nature of the market, however. Even if we give some of it back I still think we should rally in early March.

There were fewer new lows on the Nasdaq Thursday (1,344 vs. the prior peak in late January of 1,755). The NYSE was a tie at 792, the same number we saw in late January. I will call that a positive divergence for the Nasdaq and a close call for the NYSE. There was capitulatory volume as well.

The key is how the market handles resistance as we work off this oversold condition. The other key will be how fast sentiment turns. I suspect we’re still in a trading market and you should still not get too comfortable, but early March should bring a rally.

Now let’s talk about those sentiment indicators…

Sentiment in markets is something I spend quite a bit of time on. While I like anecdotal evidence, mostly I am a slave to the indicators and what they say.

Over the years, certain sentiment indicators have become more useful than others, while some have become less helpful. In addition to that, when using the put/call ratios, certain levels have moved around as well. For example, a total put/call ratio in the 40s back in the 1980s was bearish and a reading in the 80s was bullish. However, now a reading under .50 for the total put/call ratio doesn’t happen and a reading in the 80s is more neutral.

Here is a summary of some of the sentiment indicators I currently use and what I view the parameters to be.

**II and AAII**

When it comes to surveys I have always liked the Investors Intelligence (II) survey, which is released on Wednesdays. It is much more intermediate term in nature and does not tend to flip flop around the way the American Association of Individual Investors (AAII) survey does. When the two confirm each other, though, it is always best.

Both the II and AAII are contrarian indicators. When there are too many bulls we are to be cautious. Too many bulls for the Investors Intelligence tends to line up around 60%. Too few bulls is under 40%, although the low 40s can be “enough” as well, depending on how far along we are in a decline.

The current reading for the II bulls is 32%, which I consider low.

Chart, histogram

Description automatically generatedThe curious thing about the II survey is it used to see bears fluctuate a lot more, but now they barely go over 30%. I would consider – at least as of this writing – readings over 30% to lean “too bearish,” although I do prefer a reading over 40% to solidify it. There are many who prefer to see the ratio of bulls to bears slip under 1.0. The current reading is 1.04.

Chart, histogram

Description automatically generatedChart

Description automatically generatedFor AAII, too many bulls is usually over 50% and too many bears is over 40%. AAII is released on Thursday but the voting ends on Tuesday so if the market is down heading into Tuesday this usually reports “too many bears” on Thursday. It jumps around an awful lot and these days it tends to represent a cohort of older investors.

The current reading for AAII bulls recently got to a very low 19%, which historically speaking is quite bullish for stocks in the ensuing months, even if not immediately.

Chart, histogram

Description automatically generatedThe AAII bears are currently 53% which is historically high.

Chart, histogram

Description automatically generated**NAAIM**

In the last year or so I have warmed up to the National Association of Active Investment Managers (NAAIM) and their weekly survey. They survey their members each Wednesday morning with the release on Thursday morning. They ask what their members’ current exposure is to the market. So if the reading is, say, 102, it means folks are very long the market, and have even taken on some margin. My experience is that readings over 90, and definitely readings in the upper 90s/low 100s, show too much bullishness.

When it comes to low readings and what is too bearish it is not as simple. A reading at/near 20 is definitely too bearish. But there have been readings in the 40s that I would categorize as too bearish as well. Anything in the 60-90 range is neutral.

Their current NAAIM reading is 44, which means it is in the area it was at the May low in 2021.

Chart, line chart

Description automatically generated**Put/Call Ratios**

When it comes to the put/call ratios we’re looking at what people are actually doing in the market, not just a survey. Are they buying puts or calls? Oh sure, folks might be selling puts and calls as well but the vast majority – at least as of now – of the options action tends to be buying.

A high put/call ratio is thought to tell us that there are far too many puts being bought relative to calls so it tends to be bullish for stocks. I look at a variety of different instruments in options-land. For the total, which includes all options, I consider a high reading over .90 and an extremely high reading over 1.0. An “off the charts” high reading is over 1.10. A low reading is in the 60s and an extremely low reading is in the 50s, which tends to be bearish for stocks.

When we break it down and look at the equity put/call ratio I tend to use a reading over .70 as high and over .80 as very high. Anything over .90 is extreme.

On the low side (too many calls being bought relative to puts, and therefore market bearish), I tend to use a reading under .40 as the solid line in the sand. I have rarely seen a reading that low that didn’t lead to at least a short term pullback in the market.

I like to look at the put/call ratio for ETFs as well. I don’t have strong levels for this one but rather tend to look at a trend. If we see far too many readings under 1.0 folks are getting far too bullish. Far too many readings over 1.20 on a persistent basis and folks are getting too bearish. I plot this one on a 21-day moving average so that I can see the trend.

I tend to take each of these ratios and plot them with moving averages so we can see when the sentiment has gotten to an extreme.

The current trend for ETFs is moving up, and is now closing in on the March 2020 peak.

Chart, line chart

Description automatically generatedFor the total put/call ratio and the equity put/call ratio I like a 10-day moving average. They are both currently high. They often peak at/near market lows.

Chart, line chart

Description automatically generatedFinally, there is the put/call ratio on the VIX. Remember the VIX goes up as markets go down so we have to remember that when the put/call ratio for the VIX is rising folks are betting on a lower move in the VIX and therefore are bullish stocks.

So of course you will ask, isn’t a high put/call ratio for the VIX bearish then? It can be. However the VIX options players tend to be professionals and we don’t want to be contrary to them, especially when they get persistent. I like to plot this one on a 21-day moving average as well and when it peaks, we have often seen a peak in volatility and therefore a low in stocks.

It is currently high and peaking.

Chart, line chart

Description automatically generatedTo sum it all up, that old expression to buy when others are fearful and sell when they are giddy is a good general rule to follow in trading, especially when other indicators line up with sentiment.

Regards,  
  
Helene Meisler  
*Top Stocks*