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Are Investors Too Bearish? We're About to Find Out

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I look at these surveys more for turning points than anything else. If someone told me that individual investors are the most bullish they've been in 20 years, I'd be worried that it made the market vulnerable. Similarly, when I see acute bearishness, I'm looking for that to translate into a market bottom, or at least the opportunity to break higher in a decisive way.

For example, this AAI survey showed individual investors going from 36% bullish in July 1987 to 60% right on the eve of the 1987 crash. In February 2003, just before the last of three bottoms that presaged a market revival after the tech bubble burst, sentiment reached a nadir of 21% bullish. And in March of 2009, when the stock market bottomed, only 19% of individual investors were bullish.

So a 47% bearish figure is high, but not extreme.