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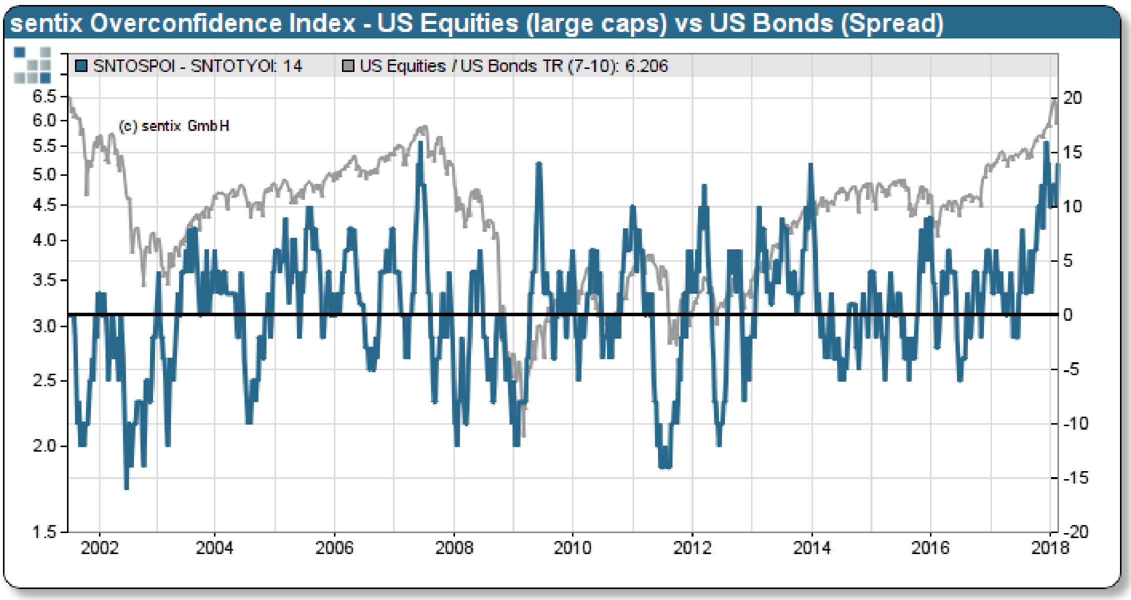
A single repetition

In December last year, we published an unusual data constellation at this point. While the sentix overconfidence index for equities showed an upper extreme, indicating increased risk exposure, the counterpart for US bonds was at a low. The difference between the two observations produced an extreme signal, which had only been reached once before - on the eve of the financial crisis. Now, in February 2018, another such extreme signal is emerging. A unique repetition!

The sentix Overconfidence Index measures whether investors tend to naively continue the trend of a market. This is risky investor behaviour. If the index reaches values of +/- 7, this is called dangerous overconfidence. There is currently such a signal for US equities (+7) and US bonds (-7). Investors therefore place great emphasis on continuing the positive stock market trend and the negative bond trend. This is surprising in view of the sharp stock market correction at the beginning of the month, which was triggered to a large extent by the weak bond market.



sentix Overconfidence Index US equities (large caps) and relative performance Equities vs. Bonds

If you look at the chart above, which shows the difference between the two indices, the uniqueness of the data constellation becomes visible. Whenever confidence in equities relative to bonds was so great, severe corrections in the relative performance of equities to bonds were close. That should be the case this time, too. Just how violent such movements can be has been impressively demonstrated by the recent past.

Background

The sentix Overconfidence Index (OCI) shows how probable it is at a given point in time that price behaviour in a market is perceived by investors as a trend. The higher this probability, the stronger the case for investors becoming overconfident regarding their forecasting skills. In a situation of **overconfidence** the likelihood, in turn, rises for a **price movement against the trend** as investors tend to accumulate extreme positions.

The sentix Overconfidence Index can fluctuate between -13 and +13 points. Readings below -7 or above +7 indicate a high probability of investors being in an active trend-perception phase and, thus, for a relatively large degree of **complacency** and **overconfidence**. The potential for a price movement against the trend then depends on the already accumulated investors' positions.

The latest sentix Global Investor Survey was conducted from 15th to 17th February 2018 with about 1.000 retail and institutional investors participating.

About sentix

sentix is the pioneer and leading provider of sentiment analyses (behavioural finance) in Europe. Since 2001 sentix surveys on a weekly basis around 5.000 investors from over 20 countries (comprising over 1.000 institutional and almost 4.000 individual investors) about their expectations for financial markets as well as for economic developments and their portfolio actions. The sentix survey results are representative of a broadly diversified group of investors.

sentix surveys offer the rare combination of a vast number of participants, high quality and an outstanding speed with which information is gathered and passed on. All sentix indices are regularly accessible for sentix data clients just about one day after the close of each poll – via the sentix website or Bloomberg. sentix clients thus can use sentix data almost in real time to further improve performance.

sentix GmbH was founded in 2001 and today represents the basis for all the services the sentix group offers to its clients in the field of Behavioural Finance.

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