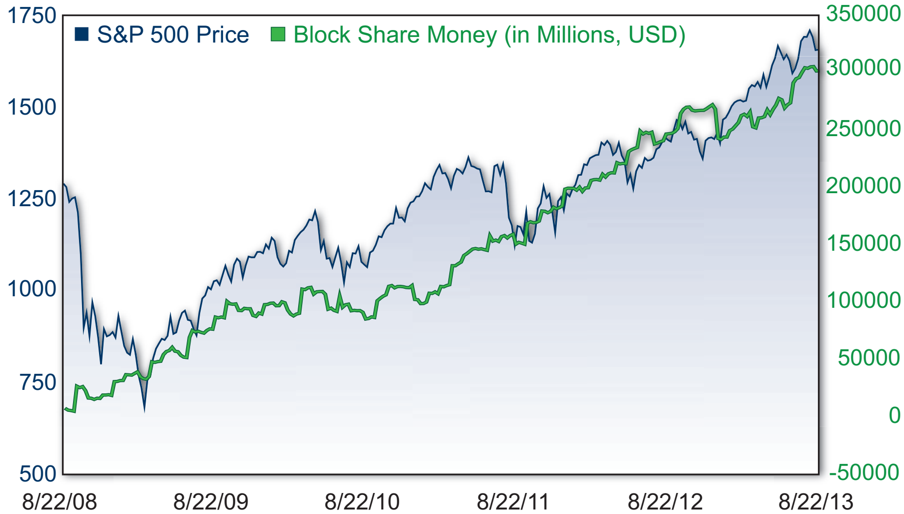
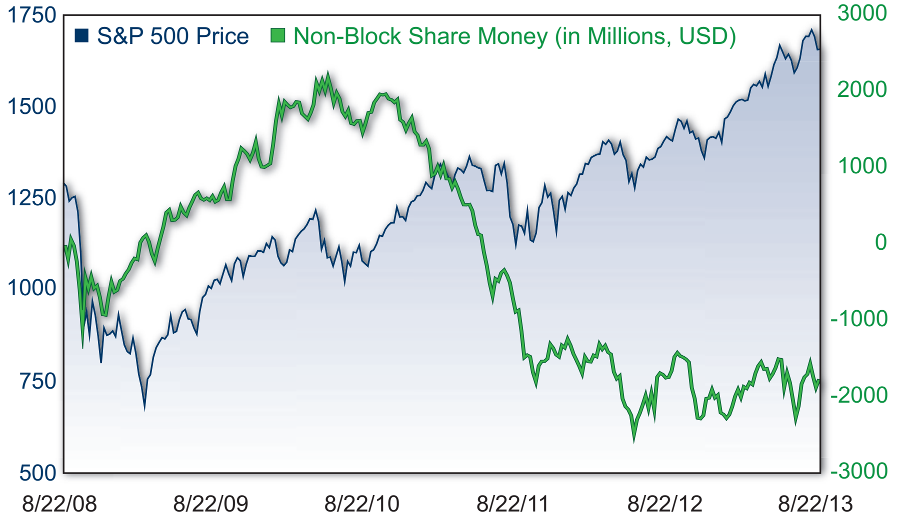
Retail Investors Still Somewhat Leery Of Stocks

Block Trades *(10,000 shares or more)* **vs. Non-Block** *(<10,000)*





Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. The S&P 500 posted a total return of 17.79% from 12/31/12 through 8/26/13. It posted a cumulative total return of 43.31% (7.46% annualized) in the 5-year span depicted in the chart.
2. Despite these positive returns, there remains a huge distinction in the sentiments towards equities between institutional investors (top chart/block trades) and retail investors (bottom chart/non-block trades).
3. In general, block trades are assumed to be indicative of institutional investor behavior and non-block trades are assumed to be indicative of individual investor behavior.
4. Over the past five years, institutional investors have consistently increased the amount of capital they have committed to U.S. stocks (see top chart).
5. Retail investors have clearly been less enthusiastic about committing capital to stocks since the "flash crash" event in May 2010 (see bottom chart).
6. Retail flows have fluctuated up and down since the latter half of 2011, indicating that retail investors remain much more apprehensive than their institutional counterparts.
7. We have yet to witness the "great rotation" out of bonds and into equities that some pundits had anticipated following the 100-plus basis point upward move in the 10-Year T-Note since 5/2/13.
8. The outlook for stocks is still encouraging, in our opinion. The forward-looking 12-month price-to-earnings ratio on the S&P 500 is currently 14.81, well below its 10-year average of 16.70, according to Bloomberg.
9. Bloomberg currently estimates that S&P 500 earnings will grow by 10.91% in 2014.

First Trust

First Trust Portfolios L.P. • 1-800-621-9533 • www.ftportfolios.com • 8/27/13