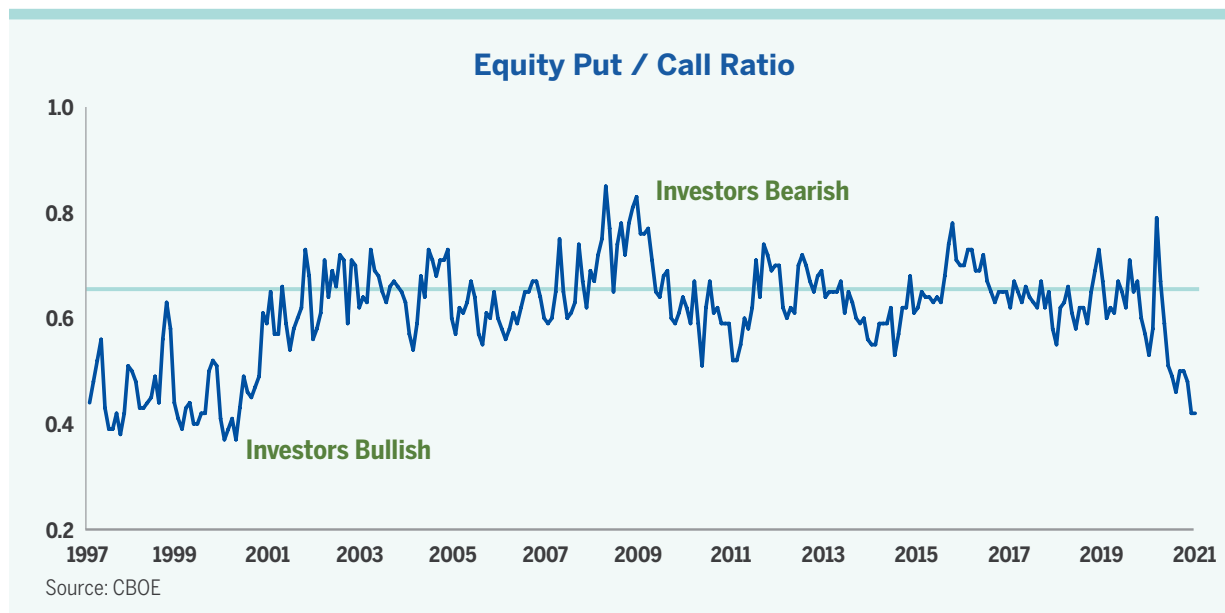


The Importance of Investor Sentiment

Increased optimism about the economy, excitement for new technologies, such as 5G, the Internet of Things and autonomous driving, and very low interest rates have created enthusiasm for equities. But is investor sentiment too high?



- Investor sentiment is the highest it has been in many years. As the chart above shows, the ratio of bearish put buying protection relative to bullish call buying bets is the lowest it has been since the technology bubble around the turn of the century.¹
- Additionally, margin debt has surged recently, up 34% in the past year as investors speculate more with borrowed funds. This data, along with increased retail investor involvement in the stock market, supports the notion that investor sentiment leans far more toward the greed end of the spectrum than its fear counterpart.
- We believe strong investor sentiment should make investors cautious, but it doesn't preclude solid returns. Take the IPOs of the euphoric late-1990s, for example. After underperforming significantly, they have outperformed over the past two decades. However, there has been great dispersion with some filing for bankruptcy (e.g., eToys) while others have gone on to change how we work and live (e.g., Amazon). The current optimistic environment may ultimately produce similar dispersion and therefore calls for more due diligence. Fundamental, bottom-up research can potentially help investors uncover durable investments that contribute to lasting innovations and identify short-lived sensations to avoid.

¹ A call is an option contract giving the owner the right, but not the obligation, to buy a specified amount of an underlying security at a specified price within a specified time. A put is an option contract that gives the owner the right, but not the obligation, to sell a certain amount of the underlying asset at a set price within a specific time.



The following positions represented the noted percentages of assets managed by Fred Alger Management, LLC as of December 31, 2020: Amazon.com, Inc., 4.9%.

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