Investors: Sell in May and Go Away?

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Today we will take a look at an old investing adage: “sell in May and go away.” It is supposed to reflect the idea that market returns over the summer and fall are worse than those in the winter and spring. Under this theory, you should sell all your stocks in May and then buy them back in November.

A good story, but . . .

Like many stock market adages, you can make a good story out of this. Traders are at the beach during the summer, no one is paying attention, and so stocks tend to sag. But when you look at the overall data, the story simply isn’t true.

First of all, depending on the time period, the theory can be very true—or not. It works sometimes, and sometimes it doesn’t. When it seems most apparent is reportedly in the third year of presidential terms, but it doesn’t always work then either.

Second of all, if you shift the focus by one month—from being in for November to April and out from May to October to being in for June to December and out for January to May—the effect vanishes. As such, the real problem may be the month of May itself.

Third of all, no matter what data set you look at, over time, you do better overall by simply staying in, rather than trying to move in and out.

Where did the story begin?

If all of the above is true, how did the story get its start? There are a couple of possibilities. As a Wall Street adage, it started there—possibly to give the traders on the Street a rationalization for those summer vacations. Second, if you look at the data, over some periods, it does work. But the major contributor to this idea, especially in recent decades, is some well-known October crashes. Obviously, those will weigh on returns. If you missed them—for whatever reason—you would have done better.

More generally, this kind of simplistic calendar-based analysis misses what really controls, which are fundamental factors. Another good example is the seven-year market cycle that I discussed here. Investing really isn’t about the calendar; it is about real economic factors. You can make rational decisions based on those factors. You can’t make those decisions based on the calendar.

Is that to say things will be great from now until November? Of course not. Although I do think conditions are favorable, there are a number of risks we have to deal with. That is, however, always the case—and those risks have nothing to do with the calendar.

The takeaway

You can take away something from even the most hackneyed adage. Here, I would say the takeaway is that the calendar doesn’t determine the markets—and you shouldn’t make decisions thinking that it does. As always, we need to look at the facts before we make any decision. The fact is that you don’t gain anything by selling in May and going away.

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