

### It's that time of year again

May marks the beginning of the six-month period (May to October) when stocks have historically underperformed the other six months (November to April). This performance differential is the root cause of the well-known “Sell in May and go away” market adage. Figure 1 shows the significant performance difference for the May-October and November-April periods for the S&P 500 since 1970 and 2013, based on a report from Societe Generale <sup>1</sup>.

Figure 2 shows monthly returns for the TSX since 2009. Summing up average monthly returns over the 10-year period to 2018, we can see that cumulative returns are 4.2% from November to April, and only 1.1% from May to October, a difference of 3.1 percentage points. Corresponding figures for the S&P 500 are 6.9% and 4.4%, a difference of 2.5 percentage points.

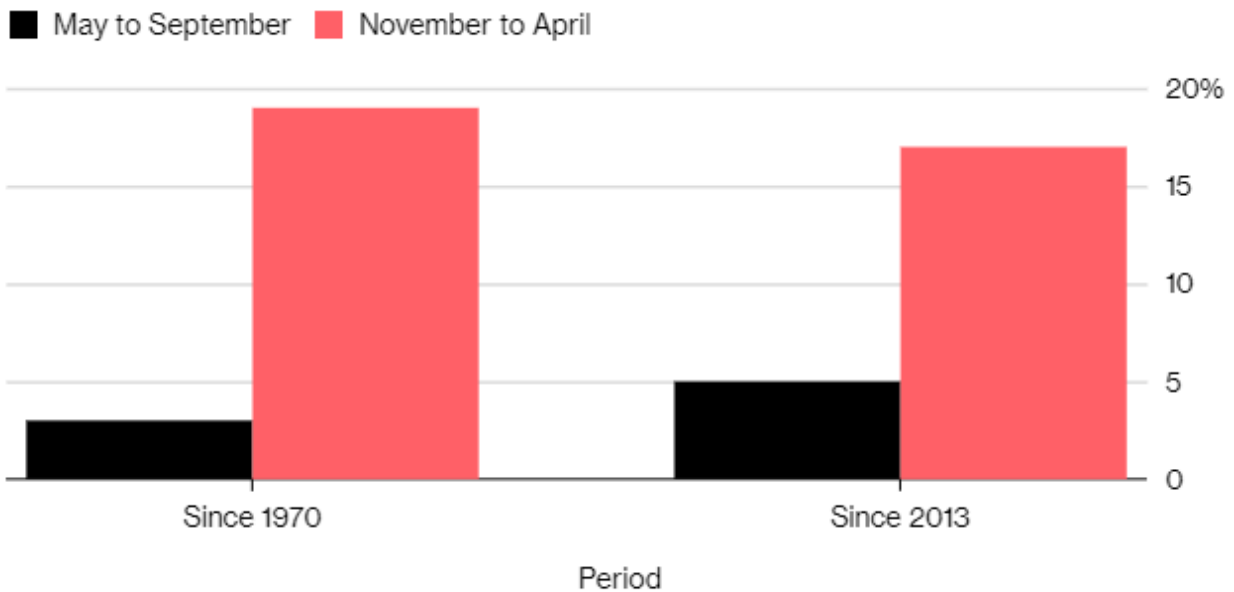
According to the *Stock Trader's Almanac*, \$10,000 invested in the Dow Jones Industrial Average (DJIA) between May 1 and October 31 for the period 1950 to 2018 would have resulted in a cumulative loss of \$5,862 (as of May 2018). But \$10,000 invested in the DJIA from November 1 to April 30 since 1950 would have grown to a cumulative \$2.84 million by 2018. This is approximately 2.5x the \$1.6 million that would have resulted from a simple buy-and-hold strategy since 1950 (assuming an initial investment of \$10,000). This seasonal performance anomaly resulted in the *Stock Trader's Almanac* “Best Six Months” strategy <sup>2</sup>, which it discovered in 1986. The strategy involves investing in the DJIA between November 1 and April 30 each year and switching into fixed income for the other six months, using the MACD trading signal.

In reality, though, it is quite difficult logistically to switch into and out of the market every six months, due to tax considerations and trading costs. But the numbers do provide evidence for being more defensively positioned in spring and summer. Such positioning is especially warranted this year, in our opinion, by the fact that equities have already had a tremendous run in the first four months of 2019. The TSX, S&P 500 and Nasdaq hit new record highs in recent days, while a Bloomberg article last week noted that the S&P 500's 25% advance from its December 24 low ranks among the top 2% strongest rallies <sup>3</sup> since 1928.

Not everyone believes that the seasonal phenomenon will manifest itself again this year. Societe Generale, for instance, thinks that “Sell in May” will not work this year because earnings expectations were quite pessimistic at the start of 2019, but are now being revised higher.

We believe, however, that it may be prudent to be a tad cautious as we begin this historically volatile six-month period. This tactical approach would involve booking partial or complete profits in equities that have surged, allocating additional funds to defensive sectors such as utilities and healthcare, and deploying excess cash balances in a staggered manner.

Figure 1: S&P 500 returns for the May-October and November-April periods (Source: Bloomberg)



Source: Societe Generale  
 Note: Data since 1970, price return, annualized return

Figure 2: Monthly returns for the TSX Composite since 2009 (Source: FactSet)

Change (MoM%) -8.97 █ █ 11.21

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
11 Year Avg	0.5	1.2	1.2	1.5	0.1							
10 Year Avg	-0.3	1.0	1.2	1.4	0.2	-1.0	1.4	0.2	-0.2	0.5	0.9	-0.0
2019	8.5	2.9	0.6	3.0	-1.0							
2018	-1.6	-3.2	-0.5	1.6	2.9	1.3	1.0	-1.0	-1.2	-6.5	1.1	-5.8
2017	0.6	0.1	1.0	0.2	-1.5	-1.1	-0.3	0.4	2.8	2.5	0.3	0.9
2016	-1.4	0.3	4.9	3.4	0.8	-0.0	3.7	0.1	0.9	0.4	2.0	1.4
2015	0.3	3.8	-2.2	2.2	-1.4	-3.1	-0.6	-4.2	-4.0	1.7	-0.4	-3.4
2014	0.5	3.8	0.9	2.2	-0.3	3.7	1.2	1.9	-4.3	-2.3	0.9	-0.8
2013	2.0	1.1	-0.6	-2.3	1.6	-4.1	2.9	1.3	1.1	4.5	0.3	1.7
2012	4.2	1.5	-2.0	-0.8	-6.3	0.7	0.6	2.4	3.1	0.9	-1.5	1.6
2011	0.8	4.3	-0.1	-1.2	-1.0	-3.6	-2.7	-1.4	-9.0	5.4	-0.4	-2.0
2010	-5.5	4.8	3.5	1.4	-3.7	-4.0	3.7	1.7	3.8	2.5	2.2	3.8
2009	-3.3	-6.6	7.4	6.9	11.2	0.0	4.0	0.8	4.8	-4.2	4.9	2.6

References

- <sup>1</sup><https://www.bloomberg.com/news/articles/2019-04-30/forget-sell-in-may-and-go-away-socgen-says-it-won-t-work>
- <sup>2</sup> <https://www.stocktradersalmanac.com/Strategy.aspx>
- <sup>3</sup> <https://www.bloomberg.com/opinion/articles/2019-04-30/historic-stock-rally-favors-bears-more-than-bulls>

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