Sell in May and Go Away?

Description

In analyzing market returns, it has been statistically shown that the summer months, May to September, more often than not have been a period of underperformance. This has given rise to the old adage to “sell in May and go away.”

But as with many generalizations, they are not true all the time and we must take them with a grain of salt. While we should not blindly sell in response to this seasonal pattern, we can take this time to look at our portfolios for those stocks that do present an opportunity to trade around this pattern, either by selling the whole position or by embarking on a less dramatic move by lightening up on the position.

With this in mind, there are a couple of stocks that, in my opinion, are good candidates to either outright sell or to lighten up in order to take some profits. And then come September, if the outlook for these companies continues to be strong, there may be an opportunity to buy back lower.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

The stock has declined 7.3% year-to-date although the company has continued to post stellar results. The first quarter of 2015 came in strong, with earnings beating expectations as the company benefited from strong freight volumes and a weak Canadian dollar.

Heading into the summer, however, a headwind for the stock is that in response to recent train disasters, the government is imposing safety regulations for trains carrying crude oil. And in fact, in early May management announced a planned $2.7 billion investment in rail infrastructure maintenance and improvements, as well as in new capacity, equipment, and technology to raise network safety and efficiency, improve service, and support future growth.

Dollarama Inc. (TSX:DOL)

Dollarama has a year-to-date return of almost 18% as it continues to expand and capture market share. However, going forward, the company is facing two significant headwinds.

First, the exchange rate is not working in the company’s favour. With the fall of the Canadian dollar, Dollarama is experiencing pressure, given that most of their products are sourced from suppliers in China using U.S. dollars. The company has already passed on some of this to customers by increasing the price on some $1 items by $0.25, and going forward, management has stated that the company may have to think about raising its prices to above $3 eventually depending on what happens with foreign exchange rates.

Second, valuation is of concern. The stock trades at 27 times consensus fiscal 2016 EPS, which represents an annual EPS growth rate of 17%. This is expensive for a retail stock, even though the company has been wildly successful and has posted impressive results over the last few years.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:CNR (Canadian National Railway Company)
3. TSX:DOL (Dollarama Inc.)

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