Sell in May and Go Away?

Description

In analyzing market returns, it has been shown that the summer months, May to September, are often a period of underperformance. This has given rise to the old adage to "sell in May and go away."

Long-term investors–like us here at Motley Fool–do not generally pay attention to these seasonal patterns, but this year, with the TSX approaching all-time highs, it may be wise to single out those stocks that are due for a breather in hopes of sparing ourselves the pain of losses and with the intention of getting into companies that are good long-term buys.

So, while we should not blindly sell in response to this seasonal pattern, we can take the opportunity to trade around this pattern when warranted, either by selling a whole position or by embarking on a less dramatic move and lightening up on a position.

Saputo Inc. (TSX:SAP) is one such name that has done exceptionally well but looks to be due for a breather. The stock has appreciated over 20% year-to-date and is trading at a P/E ratio of over 25 times 2016 expected consensus EPS.

While the company has a solid track record of healthy profitability, the stock is trading above historical multiples and is arguably expensive for a consumer company expected to achieve a mid-teens EPS growth rate.

I guess the key here is that there is a positive expectation that the company will make an acquisition that will justify this multiple. It's very possible, but I remain of the view that this stock is filled with high expectations and valued too richly and that there will come a better time to get into it.

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) is another company that has performed well but looks too richly valued and vulnerable to the downside. The P/E on 2016 consensus EPS expectations is 39 times and EPS growth is just over 15%.

The company has a very stable business model and has taken significant costs out of the equation to drive up profitability, but it operates in a very competitive business. While the latest quarter showed accelerating same-store-sales trends and margins that are increasing very nicely, the company has recently seen a slowing in sales trends at its U.S. Burger King restaurants.

In summary, these are but two stocks that appear to have limited upside and more downside in the short term. In my view, a closer look at our portfolios for more stocks like these would be a good idea at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)
3. TSX:SAP (Saputo Inc.)

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