Should You Sell in May and Go Away?

Description

You may know the trading adage "sell in May and go away." This investment strategy, consisting of selling stocks in May and re-entering the market in early November, is based on the belief that the market produces weaker returns from May through October.

It is true that the market generally produces weaker returns during that period, but it can still generate high and positive returns.

In 2017, for instance, the **S&P/TSX Composite Index** (TSX:^GSPTSE) posted a total return of 4.3% from May 1 through October 31; in 2016, the total return was 7.4% for that period. These are gains you don't want to miss.

What about sectors?

So, it looks like it is not a good idea to completely go out of the market from May to October. But some sectors generally perform less well than others during summertime. Indeed, cyclical sectors tend to have much weaker returns during that period, while defensive sectors are less impacted.

To illustrate this, I will look at the returns achieved in 2017 and 2016 by **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM), a mining company, and **Lassonde Industries Inc.** (TSX:LAS.A), a juice producer. Agnico is in the materials sector, which is highly cyclical, while Lassonde is in the consumer staples sector, a sector which is not cyclical at all.

In 2017, Agnico posted a total return of -11.3% from May 1 through October 31. The return for the whole year was 3.8%. So, the strategy to sell in May and only buy the shares back in November would have been profitable for Agnico in 2017.

In 2016, Agnico posted a total return of 15.1% from May 1 through October 31. The return for the whole year was 56.5%. So, while returns were weaker from May to October than during the rest of the year, you would have missed a gain of 15% if you had followed the strategy.

For Lassonde, if you had been invested in this company during the whole year of 2017, you would have had a return of 15.9%. The juice company posted a total return of 2.1% from May 1 through October 31. So, it was preferable to have been invested the whole year.

In 2016, Lassonde posted a very high return of 38.9% for the year. From May to October, it posted a total return of 14.6%. Once again, the strategy didn't work.

Bottom line

It looks like the strategy "sell in May and go away" doesn't hold for defensive sectors. For cyclical sectors like materials, it looks like returns are effectively weaker from May through October, but you can miss positive returns if you are not invested during that period, as was the case in 2016. Cyclical stocks can be very volatile, so it's difficult to predict where they are headed.

It is tempting to look for ways to improve your returns and limit your losses when you invest, but adopting a short-term view like the "sell in May" adage usually doesn't work well. You are better off taking a long-term view, looking for stocks that will produce superior returns over the years and not worrying about what happens on a short-term basis.

If you are afraid of short-term losses, you should have more success by rotating sectors rather than going out of the market. Investing in cyclical sectors from November to April and then shifting toward defensive sectors from May to October could improve your returns.

CATEGORY

1. Energy Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. TSX:AEM (Agnico Eagle Mines Limited)
3. TSX:LAS.A (Lassonde Industries Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/25
Date Created
2018/05/11

Author
sbchateauneuf