TSX Investors: Should You “Sell in May and Go Away”?

Description

The **S&P/TSX Composite Index** rallied to finish the day down a paltry 0.97 points on May 6. North American markets seemed doomed to suffer a sharp retreat after reports indicated that U.S.-China trade talks had hit a snag. However, confidence appeared to win out and dip-buying persisted.

“Sell in May and go away” is an old, and perhaps overused, adage in the financial world. Historically markets have suffered from under-performance in the six-month period stretching from May to the end of October. A trader or investor following this adage would seek to divest their equities around this time and re-enter the market in the middle of autumn.

The TSX Index has lost some of its momentum in May. It’s hard not to think back on the last two times the index surpassed the 16,000-point mark only to suffer sharp losses. The “sell in May and go away” strategy would have seen investors miss out on some tasty late summer and early fall gains in 2018, only to suffer further punishment with a November re-entry.

That said, top TSX stocks boast high valuations right now. The oil price rally has ground to a halt, and this is in the face of resource sector weakness in a rough month of February. Investors should also consider slowing domestic and global growth a concern as we approach the midpoint of 2019.

IGM Financial (TSX:IGM) is the largest non-bank affiliated asset manager in Canada. Shares of IGM have climbed 15.4% in 2019 as of close on May 6. The stock has dropped 2.9% over the past week.

IGM released its first-quarter results on May 3, posting net earnings of $167.5 million or $0.70 per share compared to $185.5 million or $0.77 per share in the prior year. The company achieved record high quarter end assets under management as at March 31, 2019 at $160.5 billion — a 7.6% increase from the prior quarter.

IGM stock drifted into technically oversold territory in late April and early May, but has since retreated and appears to be at a more favourable price point post-earnings. The stock boasts a strong quarterly dividend for income investors of $0.5625, which represents a 6.2% yield.

Asset managers and financial stocks will be particularly vulnerable to TSX turbulence given their weighting on the top Canadian index. Canada's big banks are set to release second-quarter earnings in the coming weeks. Earnings were lukewarm for some of the top banks in Q1 2019, with many seeing capital markets segment profit drop year over year.

IGM's fortunes are tied to stock market performance and investor sentiment, but it's a solid pick for those on the hunt for security from high valuations. The company has posted solid growth as it has undergone a strategic reorientation; gunning for a more high-net worth segment. It still sees huge opportunities in the form of Canadian households who are still sitting on a lot of cash. Most exciting of all, especially for income investors, IGM stock boasts an attractive quarterly dividend.

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