Is “Sell in May and Go Away” the Right Strategy for You?

Description

It’s the time of the year when market timers start prompting investors to “sell in May and go away.” If you are a new investor and have not heard of the adage, let me explain. “Sell in May and go away” is an investment strategy whereby investors sell their positions in May and are bought back again in the fall. The theory is that stock market returns are higher during the November to April period and dip thereafter. In other words, avoid the summer months.

Historical patterns have shown that the average returns in these two periods differ by as much as 10 per cent. That said, most of the research has been conducted prior to 2013. It is therefore interesting that the “Sell in May and go away” market timing strategy has not been as effective since 2013.

Will this year break from recent patterns? It’s certainly possible. The **TSX Index** is up 15.15% year to date and is on track to have its best year since 2009, when it rebounded from the financial crisis. This is not out of the norm. In the years following a double-digit loss, the TSX usually rebounds in a big way. Last year, the TSX Index lost 11.64%, the biggest one-year loss since the financial crisis in 2008. It is thus not completely unexpected that we are on pace for a big rebound.

If you are convinced however, that to “Sell in May and go away” is the right strategy in 2019, consider lightening your position on these high-growth stocks. In times of weakness, high-growth stocks are usually the first to get hit.

A top-flying tech stock

Even the bullish of bulls could not have predicted **Shopify’s** (TSX:SHOP)(NYSE:SHOP) meteoric rise in 2019. The company’s stock has almost doubled and is up 88% year to date. The company’s stock has risen much faster than the company’s expected growth rate. This doesn’t make it a bad stock, but does make it vulnerable to a market pullback.

Shopify’s growth has been slowing, but at an average revenue growth rate of 50%, it’s still one of the best growth stocks in the market. Its recent run-up has it trading well above analysts’ one-year price target of $259.92. At a current price of $357.14 at writing, the stock is also trading at a 19% premium to the street's highest price target of $300 per share.

A top pot stock

If the markets show weakness, than cannabis stock investors will need to brace themselves. This is a hyper-growth market that's certainly prone to significant swings. With that in mind, investors may want to consider booking profits in **Aurora Cannabis**. Of the big names, Aurora has been one of the best performers in the sector with a 79.25% return. This is second only to **Canopy Growth Corp** among the major players.

The reason I have selected Aurora over Canopy is that Aurora has been historically more volatile. It has a history of share dilution, making it prone to greater downward swings.

Not a "sell in May and go away" advocate

I'm not an advocate of the "Sell in May and go away" strategy. Market timing is best reserved for traders, not investors. That said, if you believe in the strategy and that the market is due for a pullback, it's best to focus on high-growth stocks. These stocks tend to have greater market volatility and are prone to larger price swings.

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