Sell in May and Go Away? Don’t.

Description

If you are new to the markets, there are times of the year whereby the markets exhibit certain trends. In the summer months, volume tends to drop, leading investors to “Sell in May and go away.” Over the next month, you’ll see plenty of articles advocating for the strategy. Why?

In the summer, investors spend more time vacationing and less time worrying about their portfolios. The theory is that the resulting drop in volume leads to underperformance. Volume tends to pick up in late October, which is when those that sold in May return to the markets.

Sounds like a sound theory doesn’t it? In reality, it is not a strategy I would recommend you adopt. Over the past decade, Sell in May investors would have actually lost out.

S&P 500 “Sell in May” Returns (May-October)

YEAR	S&P 500
2010	-0.3%
2011	-8.1%
2012	+1.0%
2013	+10.0%

2014	+7.1%
2015	-0.3%
2016	+2.9%
2017	+8.0%
2018	+2.4%
2019	+3.1%

Source: LPL research

As you can see by the S&P's performance above, the markets delivered positive returns in seven of the past 10 years. Although the strategy has plenty of traction, the theory behind it is flawed. In fact, the results over the past decade have effectively disproved it.

Sell in May is timing the market

The Sell in May strategy is rooted timing the market. However, countless studies have shown that time in the market is better than time out of the market. Even Peter Lynch, one of the greatest value investors of all-time was against market timing.

> *"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves."* – Lynch

Referring back to the table above, the Sell in May strategy would have actually cost investors a great deal. In fact, if investors' performance tracked the Index, the strategy would have underperformed 70% of the time. In certain years, the May to October period was actually the best performing of the year.

Market lows

Apart from a few industries, the majority of **TSX-**listed stocks have yet to rebound in a meaningful way. This means that Sell in May investors would be exiting their positions near yearly lows. Let's use **Bank of Montreal** (TSX:BMO)(NYSE:BMO) as an example.

Year to date, Bank of Montreal is down 32.45% and is the worst-performing of the Big Bank stocks. The Canadian economy is slowly starting to open up, and although it will be a cautious approach, it will lead to a rebound in economic activity.

It is likely to be a slow progression and will take quite a while before a return to normal – if we ever get there. However, assuming all goes well, even a slight return to normal will benefit the economy. As such, there is a strong likelihood that the financial sector will rebound — which includes the Bank of Montreal.

In fact, as BMO has been one of the hardest hit, there is a strong possibility that it outperforms its peers as the economy gradually finds its footing. In such a case, why would investors sell in May only to buy back in later in the year? Not to mention that investors would lose out on at least one dividend payment, if not two.

This is no way to build wealth. I'm not an advocate of the "Sell in May" strategy. Market timing is best reserved for traders, not investors.

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mlitalien