Market Crash 2020: Should You Sell in May and Go Away?

Description

The March market crash was one of the worst we have seen in a decade. Meanwhile, it also presented fantastic opportunities for investors who were sitting on cash. “Sell in May and go away” is an old investment strategy based on the theory that the period from November and April has the strongest returns. Interestingly, we saw many top stocks more than make up for March declines and even soar to record valuations. Foolish readers may want to think on this investment adage in the middle of May.

Market crash and the COVID-19 pandemic

Canada’s economy lost nearly two million jobs in the month of April. Hospitality, airlines, and other major sectors have been devastated in the face of the COVID-19 pandemic. **Air Canada**, which only a year ago was racking up record earnings, has seen its stock plunged 68% in 2020 as of close on May 14. Provinces are moving to reopen, but this is a slow process. Many businesses, especially in the service sector, may never recover.

Governments have moved to provide unprecedented fiscal and monetary support. This managed to spark a market rally in April. However, new economic data has somewhat soured investor sentiment. Moreover, health officials in the United States and Canada continue to urge caution. The catastrophic impact of a prolonged lockdown will inevitably lead to more market volatility.

Some experts have warned of a second wave of the COVID-19 outbreak. Today, investors should also consider the possibility of a second wave market crash.

Many top stocks are overheated right now

The **S&P/TSX Composite Index** is heavily weighted in financials and energy stocks. Both sectorshave somewhat rebounded from a March bloodbath, but most top stocks are still in the red for 2020. However, investors should keep an eye on smaller categories that look overheated right now. Asecond wave market crash could hit these areas the hardest.

Kinaxis has been a fantastic stock to own in 2020. Its shares have climbed 62% so far this year as of close on May 14. The stock is up 116% year over year. This company is undeniably exciting, and its supply chain software business is promising, but investors should take care not to burn themselves. Shares last had an RSI of 71, putting Kinaxis into technically overbought territory.

Shopify has been on a tear in the technology sector. The stock has soared 105% in 2020 so far, and shares are up 210% year over year. Its revenues and Gross Merchandise Volume (GMV) have exploded in recent quarters, but Shopify has yet to turn a profit.

The company has explosive growth potential to start this decade, but this is another red-hot stock that could burn buyers. Shares last had an RSI of 71, which indicates Shopify is also overbought.

Sell in May and go away?

These conditions don’t necessarily mean that we will see a second market crash in 2020. However, it never hurts to take profits even when we are a little early. Economic uncertainty and sky-high valuations should keep investors on their toes as we look ahead to June.

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