Sell in May and Go Away in 2020?

Description

A long-held adage among stock investors is to sell in May and go away, then start investing in the stock market again in November. The axiom is based on the historical under performance of the **Dow Jones Industrial Average** during the wintery months when economic activity typically slows.

Now with the added impact of the coronavirus pandemic and related economic fallout as well as the latest market rally, there is an added impetus to exit the stock market.

Another stock market crash ahead?

There are indications that this may be the year to sell in May and go away. There is a strong belief among many market pundits that another market crash will occur, and some believe it will be deeper than the March crash.

There is plenty of economic data to support those assertions. The Canadian and U.S. jobs data last month was the worst in recorded history. They now have double-digit unemployment rates of 14.7% and 13%, respectively.

That combined with measures to curb the spread of the coronavirus, including lockdowns and the closure of non-essential businesses, will sharply consumption and business activity.

This is weighing heavily on the economy. According to the Bureau of Economic Analysis (BEA), the U.S. economy shrank by 4.8% during the first quarter of 2020. Canada's economy didn't get off easy either. Statistics Canada reported that gross domestic product (GDP) contracted by 2.6%, the worst on record.

The mounting economic fallout from the coronavirus indicates worse ahead for stocks and corporate earnings. For the first quarter 2020, U.S. banks reported a sharp drop in earnings, which were half or even less of what they had been a year earlier.

Economic fundamentals and the ongoing impact of the coronavirus indicates that second quarter 2020 corporate earnings will be worse, which will serve as the catalyst for a deep stock market crash.

The world's most closely watched investor, Warren Buffett, appears to be preparing for a stock marker crash. The speculation is that Buffett is building a massive war chest of cash for a stock-buying spree. His **Berkshire Hathaway** finished the first quarter 2020 with US$133 billion in cash.

Earlier this month, Buffett confirmed the sale of his stakes in the four major U.S. carriers, including Delta, further bolstering cash holdings to close to US$140 billion.

Analysts at **Bank of America** believe the market rally resembles what occurred in the run-up to the multi-year bear market that emerged during the Great Depression. The mounting evidence of a looming market crash that will be followed by a prolonged bear market means that it makes sense to sell in May and go away.

What should investors do?

Successfully timing the market is difficult, and has cost many investors considerable sums of money. A superior approach is to buy quality companies at attractive valuations and hold them for the long term, while retaining a cash balance to take advantage of market crashes.

An appealing Canadian stock to buy is **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). It has lost 13% since the start of 2020, but reported some reasonable first-quarter numbers regardless of the difficult operating environment.

Despite flat sales growth, adjusted quarterly EBITDA declined by just 11% year over year, while earnings fell by 13% to $0.48 per share.

Restaurant Brands was able to continue operations at a large portion of its restaurants despite in-house dining being closed through home delivery, drive-through and pick-up services. The company ramped up its online capacity to process orders and payments to improve the flexibility of its operations during this difficult time.

That means that Restaurant Brands' business was not as severely impacted by stay-at-home orders and the closure of non-essential services.

While the coronavirus recession, which is tipped to be the worst since the Great Depression, is bad news for many stocks since its impact on Restaurant Brands will be limited.

During times of economic distress, consumers become more budget conscious, causing the popularity of budget dining to soar, boding well for quick service restaurant chains like Restaurant Brands.

The company is Buffett-approved, with the Oracle of Omaha owning over 1% of Restaurant Brands' float. While waiting for Restaurant Brands' stock to soar, you'll be rewarded by its dividend yielding a juicy 4%.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
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