Canadian Investors: Should You Sell in May 2021 and Go Away?

Description

"Sell in May and go away." That's the phrase that Canadian investors are likely to hear every year, and it doesn't really matter how high the broader markets have sprung into the spring month. The phrase is clever, it rhymes, and the strategy has worked on some occasions in the past. But don't count on it to help you achieve market-beating results this year.

"Sell in May and go away" is timing the market

Like it or not, subscribing to such an arbitrary strategy as "sell in May and go away" is timing the market. And regardless of the so-called strategy, timing the markets can be tremendously harmful to your wealth, especially if you're a young Canadian investor who should be taking on more risk to build a larger nest egg.

Seasonality and month-based investment decisions don't achieve market-beating results consistently over the extremely long term. Instead of looking to get in and out of the markets, you should be looking to maximize time *in* the markets.

Now, I'm not saying that you should never sell stocks if their market prices have exceeded your estimate of their intrinsic value. Rather, I think it's a mistake to liquidate a considerable chunk of your portfolio based on what some bearish talking head on TV said in the financial news last week.

Are we overdue for a market correction?

After an incredibly strong start to 2021, we very well may be due for a correction. But that doesn't mean you should "sell in May and go away."

Why? Even if you get the timing right and the stock market plunges this spring, it'll be tough to get back in at the market bottom. Timing markets is far easier said than done. And unless you're a seasoned trader, it'd be foolish (that's a lower-case *f*, folks!) to even try, because odds are, you won't be able to get in at the bottom, and you very well may have to pay higher prices if any post-correction bounce backs prove to be more abrupt than you're expecting.

Moreover, investors face another risk in the form of inflation. For those with too much savings, inflation can be a nasty beast, especially given all the stimulus in the market and the fed's extremely dovish tone. And bonds? They're a wash. For those with excess cash or bonds, bond proxy stocks like **Fortis** may be worth buying, even with the markets at fresh all-time highs. The 3.7% yield growing at 5-6% per year blows fixed-income securities right out of the water. And as we head into the latter part of 2021, I think such defensive dividend stocks could be bid up in a big way.

The road ahead could be a lot bumpier, but you should stay invested

Take the recent growth-driven correction in the tech-heavy **Nasdaq 100**. Rising 10-year U.S. Treasury note yields were on everyone's mind, and if you paid too much merit to shallow projections calling for 3% rates, you missed out on a fantastic but short-lived buying opportunity. This goes to show that sometimes it just pays to be a contrarian, even if everyone on the Street would view you as foolish!

So, in short, you shouldn't sell in May and go away if you're planning on liquidating a big chunk of your portfolio with the intention of getting back in at lower prices. If you lack dry powder and aren't ready for the next market correction, however, I think it's wise to trim away at your biggest winners over the past year. It never hurt to take a profit, and if you're ill-prepared for Mr. Market to take several steps backward, I think you need to ditch some of the frothier stocks that have surged above and beyond your estimate of its intrinsic value.

The Foolish takeaway

Valuations are stretched, and the Warren Buffett Indicator is flashing red. At the same time, there is a tonne of things to look forward to. The pandemic could end soon, and President Joe Biden's stimulus could give corporate earnings a jolt, the likes of which many of today's investors may never have witnessed. So, unless you're low on cash, it may not be wise to sell and May and go away!

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