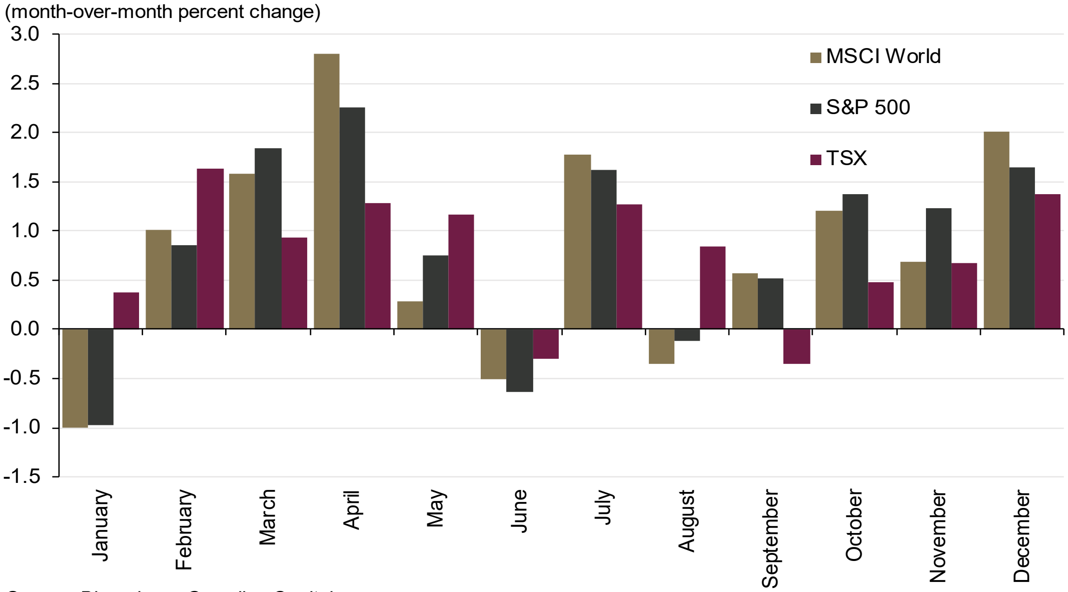
Sell in May & Go Away?

“Sell in May & Go Away” is a well-known adage about investing — the idea of liquidating asset holdings in May, ahead of the period when financial market professionals traditionally close up shop and go on summer holidays, and buying them back in late September. The full phrase ends with “and come on back on St. Leger’s Day”, which refers to the date of the final horserace of the English Triple Crown which typically occurs mid-September.

The seasonality in the equity markets seems to support this strategy, as the months of June through September have historically been among the worst months for the global stock markets over the last 15 years, with June, August and September in particular seeing weak (and even negative) returns on average.

Equity Market Total Return By Month, Last 15 Years
(month-over-month percent change)

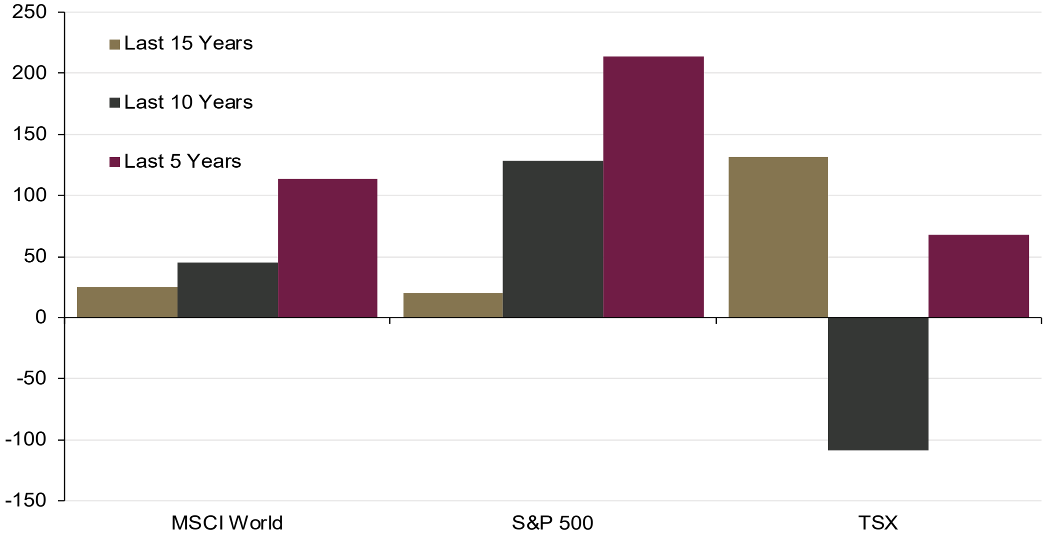


Source: Bloomberg, Guardian Capital

Like all things in investing however, it is not that clear cut. It may in fact be the case that monthly performance is weak (or negative), on average, in these summer months, but it is also the case that the June to September period has still generated positive total returns more often than not. Both the S&P 500 and the TSX have increased over this period in 12 of the last 15 years, while the MSCI World rose in 11.

Moreover, a simple "buy & hold" strategy with just the equity benchmarks, historically, has managed to outperform a strategy of selling the broad market indexes at the end of May and buying again at the end of September, over the last 5, 10 and 15 years (and this is even ignoring transaction costs).

"Buy & Hold" Versus "Sell in May" Strategy Total Returns
(relative annualized performance in basis points, >0 denotes outperformance; Canadian dollar basis)



Source: Bloomberg, Guardian Capital

Unsurprisingly, if a simple profitable investment strategy exists it will be quickly exploited, resulting in financial markets adjusting and the opportunity disappearing — investors would gladly delay their vacations if it yielded benefits to their portfolios.

In other words, "Sell in May & Go Away", while having a nice ring to it, is not exactly an optimal investment strategy. Instead, as we wrote about in our April Perspectives, history supports continuing to adhere to, *"time in"* rather than *"timing"* the market as being key to long-term wealth building.