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Should you "sell in May and go away?" Examining a stock market adage

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Many of us have heard the classic Wall Street adage, "Sell in May and go away."

Every year about this time, financial media and stock market pundits often reference the strategy as a warning about the potential of depressed stock market returns during the summer months.

The strategy generally promotes selling stocks in May and buying them back in the fall, most often in October or November. The idea is built on the belief that stocks tend to underperform during the period from May to October. Is there any data to back up the strategy? If so, should you consider it for your portfolio?

The “Sell in May and go away” strategy is rooted in data. According to Fidelity, since 1928, the S&P 500 Index has gained roughly 5 percent on average from November through April, and an average of 2 percent from May through October. This demonstrates that there is some historical basis that stocks have not performed as well during the period including the summer months.

JP Morgan found a similar trend when they looked at the last 25 years. They found that average monthly returns of the S&P 500 from October through April were 1.3 percent, while the May through September period were 0.2 percent respectively.

One important thing to note here is that stocks have historically still gone up on average from May to October! If investors chose to sit out from May through September, they would miss out on those positive returns, as well as the compounding effect that those returns have on the overall portfolio growth.

The trouble with the strategy is you have to find an alternative that offers better returns than stocks offer during that period and factor in the transaction costs and tax implications of selling all of your stock investments.

The “Sell in May and go away” strategy — like a lot of rule of thumb advice — is often only partly true or not applicable to many situations. The strategy is really just a market timing strategy which, by its nature, is generally difficult to execute successfully with much consistency.

If you are a long-term investor, the “Sell in May” strategy is likely one you should avoid.

Instead, use this as an opportunity to review your portfolio and rebalance the weightings to the targets outlined in your overall strategy. If you don’t have an overall strategy, now would be a good time to get one!

It would also be a good time to check and make sure the investments you are using are performing effectively. Then, instead of trying to time the stock market, get outside and enjoy the summer!

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