Sell in May and Go Away: Examining the Old Adage

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"Markets sometimes form patterns, which work until they don't." - Invesco

The old investment adage, "Sell in May and Go Away" comes from the belief that the stock market generates most of its gains between November and April, and that it goes no-where or declines from May to October. The origin comes from the custom of English merchants and bankers who left London for the summer and then returned in the fall. On Wall Street, traders and portfolio managers historically took long vacations between Memorial Day and Labor Day.

To follow the adage, an investor would sell all their stocks on May 1st, sit on the sidelines or invest in bonds for six-months, and then reinvest in the stock market on November 1st. Let's call this strategy what it really is - systematic market timing. The "Sell in May and Go Away" maxim removes the most difficult market timing decisions, when to sell out and when to buy back in. Here the decision is made for you: sell in May and buy back in November. Market timing is one of our favorite topics and is something we get asked about quite often. Please see our **Client Question – Market Timing Does Not Work**.

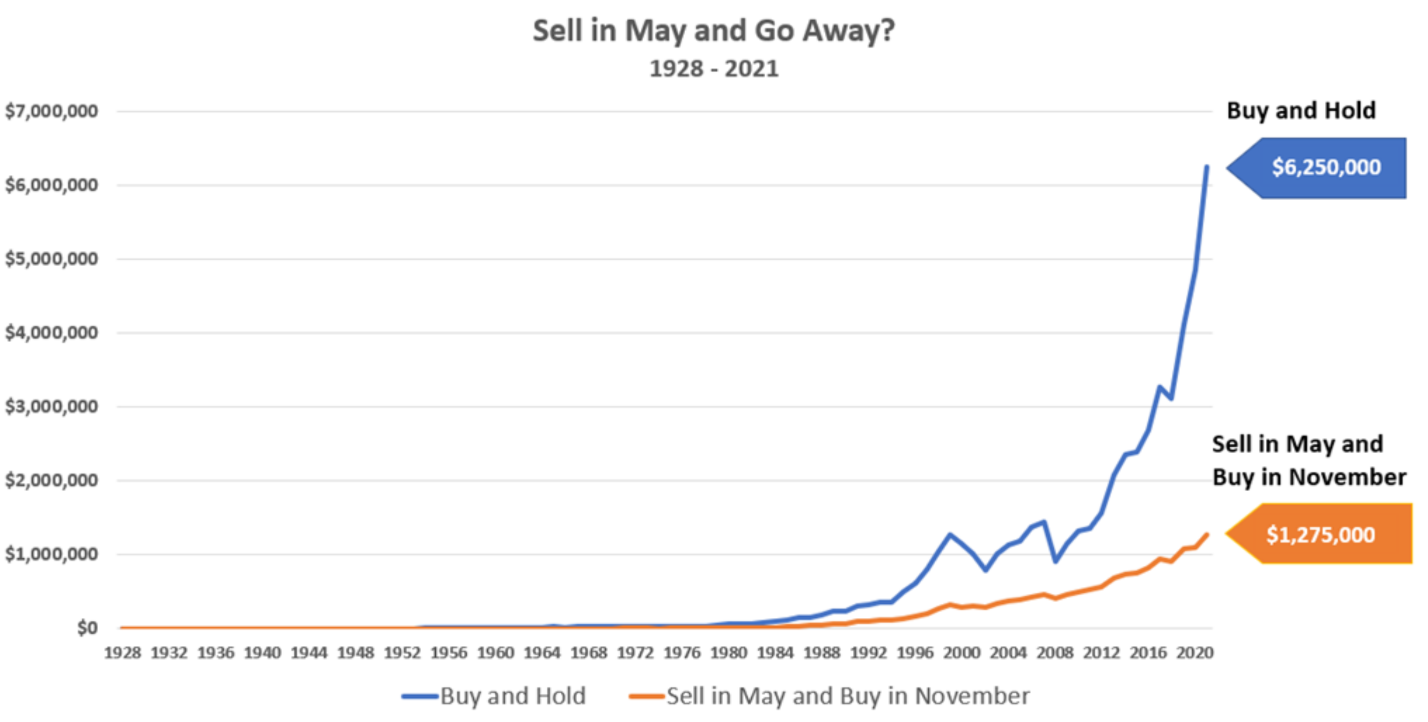
To examine how the May to October period historically performed against the November to April timeframe, we looked at historical data of the S&P 500 going back to 1928.Over the time period, the November to April period did outperform May to October, suggesting that the "Sell in May and Go Away" adage has some validity.

S&P 500 (1928 -2021)		
Data	May to October	November to April
Positive Periods	68	71
Negative Periods	26	22
Average Return	4.05%	6.99%
Median Return	5.32%	7.29%
Best Return	38.23%	28.84%
Worst Return	-31.97%	-44.10%

SOURCE: Bloomberg

Before we go and sell all our equity holdings because the calendar turned to May, we will point out three critically important items:

1. **Does not work every year**: The "Sell and May and Go Away" strategy does not work every year. Starting at the beginning of the year, the May to October period outperformed the subsequent November to April timeframe in 39 of 93 total periods (about 42% of the time). The strategy has also not worked very well recently as May to October has had better performance in 5 of the past 8 years.
2. **Potential Capital Gains**: An investor with a taxable account could face substantial capital gains by liquidating their equity holdings each May. Also note that the capital gains would likely be considered short-term (held for less than one year), which are taxed at a higher rate.
3. **Opportunity Cost**: Although November to April has historically been a stronger period, the May to October timeframe still produced positive returns on average. Given that the May to October period has generated an average return of +4.05%, the opportunity cost of selling in May and not participating in future market gains is massive. From 1928 to 2021, a Buy-and-Hold approach invested in the S&P 500 would have dramatically outperformed a "Sell in May and Go Away" strategy (starting with the S&P 500 and selling every May, going to Treasury bills, and buying again in November). The vast difference in performance is due to the power of compounding.



Hypothetical growth of $1,000 invested from 1928 - 2021: S&P 500 Buy and Hold vs. S&P 500 selling every May, going to Treasury Bills, and buying again in November

Source: Bloomberg, Invesco, and Federal Reserve Bank of St. Louis

Conclusion

Based on our analysis, “Sell in May and Go Away” may have some validity, but we believe that just like similar market timing strategies it should not considered as a serious investment approach. Most market timing strategies suffer from short-term thinking, potentially expose investors to substantial capital gains, and do not work consistently. As we’ve stated in the past, if an investor discovered the magic formula to market timing, they would essentially be able to make an unlimited amount of money. There is no magic formula. At Winthrop Wealth, we believe the right mindset paired with a comprehensive financial plan and a thorough investment process is the best approach toward meeting your long-term financial goals

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