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Wealth Advisers, LLC

Polaris Educational Series

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Do You Still "Go Away" Even After a Strong May?

Last May I wrote about the bias behind, "sell in May, and go away." While it is true that October through April have been much stronger seasonal periods to invest than May through September, I argued that there have been far too many strong May through September time periods for us to pack up and go on vacation for six months.

Thankfully, after I wrote last year's educational e-mail about the subject, May through September's results were very strong, with the S&P 500 gaining almost 10% during these six months. May of 2013 was up 2.1% and June through September was up 7.7%.

Here we sit in June of 2014. This year's May results matched last year's results, with the S&P 500 up 2.1%. So what can we expect for what is typically the weakest time of the year in the stock market? As the table below shows, from 1950 to 2013, the S&P 500 has been up at least 2% in May 21 times. Of these occurrences, the S&P 500 continued its positive performance 76% of the time in June through September, with an average total return of 3.9% during these five months. The average total return during the five occurrences when the S&P 500 had a strong May but a negative June through September was -7.46%.

Year	May	June-September	Year	May	June-September
1950	3.9%	4.0%	1993	2.3%	3.9%
1952	2.3%	2.8%	1995	3.6%	9.0%
1954	3.3%	8.5%	1996	2.3%	5.4%
1957	3.7%	-13.4%	1997	5.9%	7.8%
1960	2.7%	-4.4%	2003	5.1%	9.0%
1975	4.4%	-2.3%	2005	3.0%	1.3%
1980	4.7%	14.6%	2007	3.3%	1.2%
1985	5.4%	0.1%	2009	5.3%	12.7%
1986	5.0%	-1.4%	2013	2.1%	7.7%
1989	3.5%	6.2%	2014	2.1%	????
1990	9.2%	-15.8%			
1991	3.9%	0.7%	Median Returns	3.7%	3.9%

% of time positive year 76.2%
Average during negative June-September -7.46%
Source: S&P Index Alert/Ned Davis Research Group

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Of the 21 occurrences in which the S&P 500 has appreciated 2% or more during the month of May, May through September outperformed the following six months (October through April) over 40% of the time. In other words, when May performs strongly, there is a higher probability that this historically weak seasonal time in the market (May through September) has a good chance of outperforming the stronger months to invest (October through April). Just another reason to keep invested this summer.

While May through September of 2014 is setting up to be a good time to invest, we will never draw a line in the sand and insist that history should repeat itself. Polaris always manages money in a dynamic, clinical manner. We will let the numbers speak for themselves and if the odds seem to be shifting against us, we will naturally get more defensive with your portfolio by lowering your exposure to the stock market. For now, we hold at our market weight exposure for each of our respective strategies, keeping a vigilant eye out for risk and opportunity.

As always, I welcome your questions and comments.

Sincerely,

Jeff