WHAT DOES IT MEAN TO

“Sell in May and Go Away?”

Is this time different?

One of the oldest stock market strategies is to “Sell in May and Go Away.” But what does this phrase mean?

THE STRATEGY

“Sell in May and go away” is a well-known trading adage that counsels investors to sell their stocks in May to avoid a seasonal decline in the stock market. An investor selling his or her stocks in May would then buy stocks again in November because the November through April period shows significantly stronger growth in the market than the other half of the year.

Where did this “Sell in May and go away” advice originate? Not on Wall Street, but rather in London’s financial district. The original saying, “Sell in May and go away, come back on St. Leger’s Day” refers to a horse race. That’s right, a horse race. The St. Leger Stakes is one of England’s greatest horse race and is run in late September. London traders would sell their shares, enjoy their summer, and return to the market after the St. Leger race.

BUT THIS TIME IT’S DIFFERENT?

This is probably the most dangerous phrase in all of investing: “this time it’s different.” In fact, if you are discussing investments, the markets, or anything financial related and someone says this, don’t walk away, run.

EXPLANATIONS FOR NOVEMBER-APRIL SUCCESS

The reality is that there is a lot of money moving throughout the economy, and the stock market, from November through April.

Here are some examples:

- Holiday spending: Halloween, Thanksgiving, Christmas, New Year’s Day, the Super Bowl, Valentine’s Day, Mother’s Day, etc.
- Back-to-school, Black Friday, and Cyber Monday sales.
- Employer contributions to employee retirement plans or Year End Bonuses
- Tax refunds.

LIMITATIONS TO THIS STRATEGY

Despite these favorable statistics, there are limitations to implementing this strategy.

- No one knows when to start: From 1988- 2015, according to economist John Mauldin, the best strategy might have been “Sell in August, buy in mid-October”.
- With any strategy based on averages, any given year might show an extreme high or extreme low, a wave that a buy-and-hold investor could ride out.
- Potential tax implications or unnecessary transaction costs

Not only that, “bet the farm” on a simple seasonal strategy that roots back to a horse race. That would be like gambling...

WORKING WITH YOUR FINANCIAL ADVISOR

The key to successful long-term investing, of course, lies in following wise strategies. Your financial advisor understands these strategies.

No specific investment strategy is foolproof. Your best strategy as an investor is not to base your plans on market timing or the season. Instead, focus on the traditional, sensible factors that include assessment of the business cycles, changing economic conditions, and news from the market.

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