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MARKET SIGHT LINES

Sell in May? Don't Go Away

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Last time, we highlighted some signs of improvement with inflation and the possibility of a Federal Reserve (Fed) pause. But the week prior, we discussed risks all around, like the potential for Fed policy error, more bank failures, the debt ceiling, and the prospect of recession, along with the wide range of views we're seeing in the industry. Perhaps after reading some recent media coverage about the adage "Sell in May and go away," some clients are asking if this is a good time to sell stocks given these risks. Not surprisingly, perhaps, for the long-term investor, our answer is no.

In this Sight|Lines, we explain and analyze "Sell in May and go away" and then share an update to our guidance: For the long-term investor, time in the market is more important than timing the market.

THE TAKEAWAY: INVESTORS WHO SELL IN MAY AND GO AWAY COULD WELL MISS MEANINGFUL MARKET APPRECIATION, BASED ON HISTORY

The adage "Sell in May and go away" draws on the notion that during the six-month period from May to October, the stock market doesn't perform as well as it does during the six-month period from November to April. In summary:

- By our analysis of history, the November-to-April period does produce higher returns than the May-to-October period, on average.
- That said, the average return during the May-to-October period is still meaningfully positive.
- On a related note, timing the market is difficult. If an investor invested in the market missed the top 27 performing days over the last 20 years, their portfolio would have lost money.
- And nine of those 27 best days occurred during the May-to-October period.
- On the negative side, 16 of the worst 27 trading days occurred during the November-to-April period.

Clients have been asking: Is this a good time to sell? Our view for the long-term investor? It's best not to "Sell in May and go away," but instead stay the course, as time in the market is more important than timing the market.

IN-DEPTH: THE STOCK MARKET HAS HISTORICALLY EARNED A MEANINGFULLY POSITIVE RETURN FROM MAY TO OCTOBER EACH YEAR. IT'S BEST NOT TO "SELL IN MAY AND GO AWAY." TIME IN THE MARKET IS MORE IMPORTANT THAN TIMING THE MARKET.

Given the uncertainties and risks we've been discussing, investors may be tempted to follow the adage "Sell in May and go away," or the idea that stocks don't perform as well during from May to October compared to November to April. We guide long-term investors to stay the course. Going deeper:

- The November-to-April period does produce higher returns than the May-to-October period, on average. But:
    - Over the last 20 years, the average May-to-October period return was 4.1% compared to the 6.7% average for the November-to-April period.
    - The cumulative May-to-October return over the last 20 years was 122% – significant value-added.
- Timing the market is difficult and runs the risk of missing key days in the market, as defined by the S&P 500:
    - The cumulative return in the market over the last 20 years was 575%.
    - The top 35 days during that period earned a total of 573%.
    - So, if a portfolio invested in the market missed those days, it would have earned a total of only 2% over 20 years.
- Connecting the two concepts:
    - 11 of those 36 best days occurred during the May-to-October period.
    - 22 of the worst 26 trading days occurred during the November-to-April period.

In our behavioral finance work, we often talk about the idea of *Composure*, or an investor's ability to handle losses in their portfolio. And when uncertainty or volatility is up, even investors with high *Composure* may ask: Is this a good time to sell? Based on our assessment of both human behavior and markets, to sell seems an easy decision. The tough part? Deciding when to reinvest back into the market.

CONCLUSION

While we've seen some signs of improvement with inflation and the possibility of a Fed pause, the risks all around remain, like the potential for Fed policy error, more bank failures, the debt ceiling, and the prospect of recession. Some clients have been asking if this is a good time to sell. We suggest to long-term investors not to be tempted by investing adages like "Sell in May and go away" and instead to stay the course, as time in the market is more important than timing the market.

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