Buy In May & Go Away

May 2019

OVERVIEW

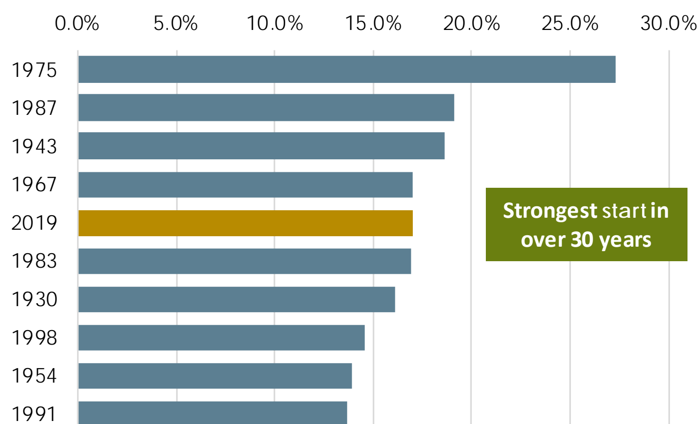
- **A popular market adage suggests investors would be well-served by giving their portfolios a summer vacation**
- **Historic advantages, however, lack year-over-year persistence and ignore key realities like taxes and re-entry discipline**
- **The bull market economy of the past 10 years still lacks the signals that portend an impending recession**

Background

The rhyming market maxim "Sell in May and Go Away" describes the phenomenon that stocks have historically underperformed between May and October. Put another way, it is the belief that investors are better off being out of the stock market and in bonds or cash during the summer months, only to return to risk-seeking assets for the more robust November through April period. Efficient market proponents would suggest this type of approach is not sustainable, and some believe this is simply the result of data-mining rather than a causal or predictable relationship. That said, past returns verify the existence of this effect across broad equity markets, with the observed impacts in Europe actually exceeding those in the US. There are a number of theories as to why this pattern has occurred, mostly around vacations, lower trading volumes, or the lack of corporate news flow, but there has not been sufficient academic research to validate any of these.

Fundamentals vs. Technicals

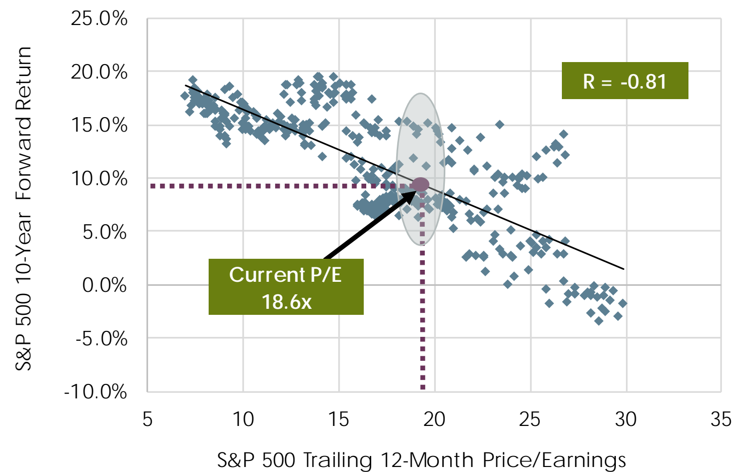
There are no fundamental drivers that support "selling in May" every year. ACG believes valuations in the marketplace are the best predictor of future returns, and these are certainly not calendar-driven. 2019 has been a very strong year for global stocks, and the S&P 500 in particular, with the benchmark fully reversing the deep losses experienced in 4Q-18 and establishing new all-time highs. While other macro-economic and policy factors played a key role, the attractive valuations of late-December surely helped to set the table for the recent rally in risk assets. Technicals, which include momentum and investor cash flows as important factors, have coincidently been less euphoric than one might expect. In fact, a recent survey of fund managers conducted by Bank of America Merrill Lynch indicates that allocations to cash are statistically high relative to history while the opposite can be said for global equity exposure.



Source: Standard & Poor's, Bloomberg, ACG Research (1928-2019)

What About "Buy in May"?

As the outlook for the economy continues to be positive, with most predictions of recession at least a year away, is now the time to get in? Even as we look back over a decade-long bull market, late-cycle characteristics are not dominant and it's hard to identify any clear "bubbles." Rather than wondering when to get out, perhaps nimble investors should be considering the opportunity to take advantage of one last run in this recovery. The dovish turn by global central banks is supportive of this idea on multiple fronts: 1) more "patient" policy should act to support economies/companies and extend the business cycle, and 2) an environment of lower real yields reduces the appeal of holding high-quality bonds or cash, while acting to support risk-assets. Absent a shock event that disrupts the economic environment and spawns a flight to quality, the case for widespread rotation away from equities is tough to argue. With international equity returns having been relatively tepid amid US dollar strength, concerns over global trade, and a slowdown in Europe, we believe this category warrants particular attention.



Source: Standard & Poor's, Bloomberg, ACG Research (1976-2019)

ACG's Position

Among the various investment mantras out there, we mostly support the "buy low, sell high" approach. While defining exactly what is "high" and what is "low" is rarely clear, we don't feel it has anything to do with the calendar. ACG remains a proponent of strategic investing, taking the long-term view and understanding that short-term outcomes are exceedingly hard to predict. The period of May through October has historically underperformed the other half of the year, but has still provided consistent gains. For investors with cash on the sidelines, there are solid reasons to "Buy in May" of 2019, aside from any expectations of a short-term tactical victory. As always, focus on the risk you are able and willing to take, and size portfolio investments appropriately.

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