Sell in May and Go Away! Why?

Seasonality of Stocks (S&P 500 Total Returns)

View from the Observation Deck

1. The old axiom in the stock market about selling your stocks at the close of April and then buying back in at the start of November once made some sense from a seasonality standpoint.
2. When the U.S. was more of an industrialized economy it was not uncommon for plants and factories to close for a month or longer in the summer to retool and allow employees to vacation.
3. The theory was that companies would conduct less commerce in that six-month span, which would translate into lower earnings.
4. Today, due in large part to globalization, the world is far more interconnected and competitive, and there is less room for downtime, in our opinion.
5. The three most glaring May-October (2001, 2002 & 2008) periods featured in the chart occurred while in the midst of the last two bear markets. Aside from those three, there hasn’t been much downside for investors.
6. The average return for the November through April periods in the chart was 8.14%, compared to a 2.49% return for the May through October periods. These returns, when added together, are in line with the historical norm.
7. From 1926 through 2014, the average annual total return posted by the S&P 500 was 10.12%, according to Ibbotson Associates/Morningstar.

Source: Bloomberg. Past performance is no guarantee of future results.