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May 2013 Insights

Today is the first day of May, and the usual "*Sell in May & then go away*" articles are blooming all over. "Sell in May" is the discovery of Yale Hirsch, who founded the Stock Trader's Almanac 46 years ago. Yale is still kicking at 89, advising his son Jeff Hirsch (who took over the reins at the Almanac when the senior Hirsch began to slow down in his early eighties). Yale noticed that since 1950, almost all of the market's gains have come in the period from November to April. No one really knows why, but guesses have included holiday shopping, year-end tax planning, school year spending, and tax season.

Here's the thing about Sell in May: It works some years, and it doesn't work in others. Over the past 63 May to October periods, markets have been positive 37 years, and negative 25 years. If we back out some of the bigger September/October crashes – 1966, 1974, 2000, 2008 – much of the May to October performance disadvantages go away.

Aside from this seasonality, there is a long list of things that has some traders worried – Recession, hacked twitter accounts, problems in the Middle East, excessive bullishness, Eurozone, terrorism, etc. For people who are so inclined, there is *always* something to be worried about. But rather than twitching spasmodically in response to every headline, we prefer to rely on the data itself. We continue to see a market foundation supported by three factors: A strong underlying trend, positive earnings, and ample liquidity. Additionally, these markets have continued to show resilience in the face of the aforementioned worries.

Perhaps we should be thinking about the opposite of what has the crowd so concerned – they overlooking the list of things that could possibly go right? What if global growth starts to tick up? What if hiring improves? Earnings stay strong? What would the results be if Europe ever gets its act together?

It would not be a big surprise to us if the markets get a little soft over the next quarter or two. Given our longer-term perspective, we would rather not throw darts or make wild guesses as to if or when these problems might occur, and whether they impact markets seriously. We have designed our portfolios with the possibility of these events in mind. They are built to be able to withstand some volatility.

So far, we see no data supporting the most extreme and negative views. As such we continue to give this bull market the benefit of the doubt.

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