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Sell in May…Not Yet!

May Market Review From Your Portfolio Management Team—June 10, 2014

A common adage on Wall Street is to “Sell in May and go away.” It comes from a study conducted by Yale Hirsch in his oft-quoted book, the Stock Trader’s Almanac. In his study, he found that going back to 1950, most of the stock market’s gains come from the six-month period between November 1st and April 30th, while returns between May 1st and October 31st are almost zero. As a result, around this time of year, the media brings out this study to suggest that tougher times may lie ahead for investors.

Even though we still have five months to go in this seasonally weak period, the month of May went into the books on a good note—rising 2% (based on the S&P 500). Foreign stocks also rose in May, as did bonds. Smaller company stocks managed modest gains. The only area that seemed to weaken during the month was commodities (including gold and silver).

The FSA portfolios are participating in the rally, and as you can see from the table below, money market levels in all our strategies are quite low. All three major assets classes held by our portfolios (stocks, high yield bonds, and high quality bonds) are in nice uptrends, so we are seeing consistent gains from most of our positions.

Strategy	Stock Funds	Commodities	HY Bonds	Inverse Funds	Quality Bonds	Money Markets
Tactical Growth	50%	5%	30%	8%	0%	7%
Core Equity	70%		20%		N/A	10%
Conservative Growth	57%		20%		20%	3%
Income & Growth	40%		20%		37%	3%
Income	N/A	N/A	49%		50%	1%

Note: Allocation percentages are as of May 31, 2014 and are an average of all accounts within the strategy. Individual account allocations may differ from these averages.

What's Ahead

There has been enough history associated with 'Sell in May' that it behooves investors to take note and be sensitive to the environment during this time of year. However, these historical tendencies aren't meant to suggest that they hold each and every year. As recently as last year, the S&P 500 rose roughly 10% during the May – October period. So, this adage is certainly not accurate all the time. As long as the underlying trends of our assets and funds remain strong, we will maintain our invested positions. When we see those trends begin to turn down, that will be our cue to begin cutting back and building up the money market position again.

The most recent market decline of 10% or more was during the spring of 2012. Since these types of declines historically occur once a year, we are certainly overdue for a pullback of a similar magnitude. For the past 2 years, US stocks have remained in a solid uptrend, and with fairly low volatility, as well. The environment is leaving many investors feeling that things are too good. Is there a shoe out there ready to drop?

While we may share in that sentiment, as trend followers, we are compelled to ride the trends and not second guess the reality of the current environment. It did not benefit investors to sell in May this year, but there will, no doubt, be a number of challenges for the market to overcome as move through the summer months. At FSA, we will stay on top of these trends and prudently make changes in the portfolios as conditions dictate. For now, the trend is our friend.

Please let us know if there are any changes to your personal situation that might suggest some changes to your investment objectives.

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