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Sell in May and Go Away?

April Market Review From Your Portfolio Management Team—May 15, 2012

There is an adage on Wall Street that most returns for the year are generated between November and April. One could sell his stock positions in May and hold cash through October and thus miss any summer or fall market swoons. Jeffrey Hirsch, author of the Stock Trader's Almanac (who has studied such things) reports that from 1950 – 2010, all the returns from the Dow Jones Industrial Average can be attributed to gains from the November 1 – April 20 time frame. Returns from the period from May 1 – October 31 are basically equal to zero.

If investors had followed that advice over the past two years, they would have fared quite well as stocks turned down hard after strong rallies in the spring. In addition, they would have caught part of the year end rallies that have marked the past 2 years.

The question investors are asking themselves is if that market advice will ring true for a third straight year. Well, it has certainly been a strong period since October 31, with the Dow Jones Average rising about 14% over that time frame. With a Presidential election on the horizon, as well as the ongoing turmoil in Europe, it is easy to make a case for increased caution as we move towards the summer months.

As you can see from the table below, most of our strategies are already insulated from the vagaries of the stock market, as money flows continue to push our allocations to the bond market. The table below shows the current asset allocation levels of the five strategies. As of early May, we have our overall money market position down to roughly 10%, on average, with relatively modest weightings in stocks.

Strategy	Stock Funds	HY Bonds	Inverse Funds	Quality Bonds	Money Markets
Tactical Growth	35%	25%	3%	17%	20%
Core Equity	50%	23%		11%	16%
Conservative Growth	15%	22%		55%	8%
Income & Growth	10%	15%		70%	5%
Income	--	15%		80%	5%

Note: Allocation percentages are as of April 30, 2012 and are an average of all accounts within the objective. Individual account allocations may differ from these averages.

Even though the FSA strategies were not able to keep pace with the broad stock market in the first quarter, they have managed to hold their gains as stocks have struggled over the past six weeks.

The FSA approach is focused on money flows into various asset classes and sectors, and thus we do not incorporate seasonal factors, such as the "Sell in May" phenomenon. Corporate bonds continue to hit new highs, and received over $80 billion in fund flows in the first quarter, with another $20 billion in April. Domestic stocks, in spite of the strong rally, actually had net outflows in 2012. If we see money flow away from bonds and back into stocks, we will begin to shift the portfolios back to a more stock oriented make-up. The more aggressive strategies of Core Equity and Tactical Growth already have some weightings in stocks, and those weightings will increase if and when money flows increase into the stock market.

Our mantra is not "Sell in May and go away," but rather "Follow the Money."