



1720 E Calle Santa Cruz
Phoenix Arizona 85022

HUTCHISON INVESTMENT ADVISORS
Registered Investment Advisor
Founded on a CPA Firm Background
(602) 955-7500

E-mail:dave@davecfp.com
Fax (602) 955-1458

"Sell in May and Go Away" homily facts

The pop slogan originated in the U.K and had a nice rhyme - "Sell in May and go away, come back on St Leger's day." St. Leger's day is the last race of the British horse racing season, however this day is unlikely to be known by non-Brits so it is replaced by Halloween (which in turn is Samhain, about one-eighth year after the equinox).

Today the theory is that people tend to feed their retirement accounts and invest bonuses early in the year. They go on vacation and ignore the market over the summer. Traders come back in September and dump companies that aren't performing according to expectations.

Historically in the U.K. and most European markets - on average if you go back to 1694 (yes 1694!) - markets have had smaller gains in the summer. The slower summer markets have been related to the long "on holiday" when many Europeans take long vacations with fewer people buying stocks. In the U.K and much of Europe all employees get at least 4 weeks of paid vacation a year.

The Financial Times of London (FT) 4/27/2011 reports that the slogan historically has been truer in the U.K. market than in the U.S due to Europeans' long summer vacations. In the U.S. vacations are shorter. FT says that U.S. equity prices have only fallen in a third of the summers since the Second World War. 2/3rds of the summers had gains.

FT also points out: "In 1987, buying in September meant losses of 19 per cent by May. In 2008, St Leger's day came two days before Lehman failed, marking one of the worst moments to buy shares imaginable. The following May, anyone who stayed out of the market missed returns of 21 per cent by September...Furthermore, as Philip Isherwood at Evolution points out, the biggest May-September falls were often in recessions. There is no sign of the U.S. heading towards recession."

In the U.S. the stock market crashes of 1929, 1987 and 2008 occurred between May and October, but had nothing to do with the season. It is true that there is money from IRA contributions and pension funds going into the markets the first few months of a year, although currently there is a record amount of cash on the side not yet committed to the equity markets. In the last two years bonds had more inflows than equities. This is one reason the equity market (especially large caps) are so undervalued currently vs. the surge in corporate earnings to near record levels.

If interest rates rise and bond holders realize losses, this could provide additional fuel besides the surge in earnings to fuel the next major market rally. It has little to do with the season.

Sample Recent S&P500¹ Results

Supposedly bad periods:

May 2007 – October 2007: +4.52%
May 2008 – October 2008: - 30.1%
May 2009 – October 2009: +19.53%
May 2010 – October 2010: +5.01%

Supposedly good periods:

November 2007 – April 2008: -9.62%
November 2008 – April 2009: -5.1%

DISCLOSURES:

The views are those of Dave Hutchison and should not be construed as investment advice.

¹Investors cannot directly invest in indices. Past performance does not assure future results