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Buy ‘em in the winter and Trim ‘em in the summer

“Sell in May and go away” is an old saying that cautions investors to sell their equities in May and get back into the markets in November. The adage itself dates back to an old English maxim that goes, “sell in May and go away, and come on back on St. Leger’s Day”. Back then, English aristocrats used to leave the hot summer season in London, traveling to the country and would come back to the city on the last day of the St. Leger’s Stakes, a horse race in mid-September. Over time as traders went on vacation during the May to October period, they began to employ this investing adage. So our question here is, does “sell in May and go away” actually work?

The Maxim

It is hard to deny the underperformance of the May – October period (summer) over the November – April period (winter). Looking at the S&P/TSX composite index data back to 1988, we find that the market has averaged 1.0% during the summer period and 5.3% during winter. Of the 30 years of data, the winter period has only outperformed the summer period 53% of the time. While to some this may seem like a coin flip, if implemented in a disciplined fashion, the “sell in May and go away” strategy can bear fruit. However, when winter does outperform, it does so by such a large margin. Starting with a $10,000 investment in 1988 and a disciplined strategy of buying in November and selling in May, an investor would have made a gain of $32,132 if they were invested during the winter period and only $1,092 during the summer period. Though we found no particular reasons for this outperformance, we believe lower trading volumes during the summer periods and improved investment flows during the winter could have contributed to such a discrepancy. Had the investor implemented a buy-and-hold strategy, they would have ended up with a $36,733 gain. Safe to say, being invested in the market at all times is much more lucrative than trying to time it.

The Strategy

Looking at the past two years, “sell in May and go away” has not actually worked and, as previously mentioned, the chances of it working are almost a coin flip. So instead of making a decision to “sell in May and go away”, we wanted to know if there were specific sectors that did better than others in the 6-month summer period. For those that want to get their portfolios ready for the undeniably seasonally weak period, think of trimming back on sectors that are more affected by the slower summer months and add to sectors that benefit. This keeps investors fully invested and allows them to participate in any upside that otherwise would have been omitted in the summer period had they sold. Additionally, selling all your positions could lead to increased transaction costs and tax implications, which might not be in one’s favour.

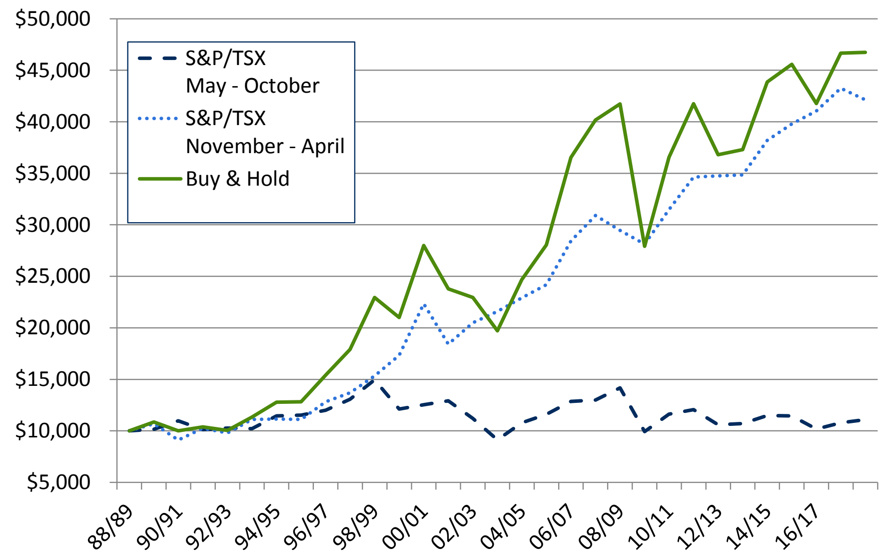
Favourable Period Outperforms 53% of the Time

6-Month Returns	S&P/TSX May - October	S&P/TSX November - April	Is Nov-April > May-Oct?
88/89	1.7%	6.8%	Yes
89/90	8.0%	-14.7%	
90/91	-7.8%	12.6%	Yes
91/92	1.4%	-4.6%	
92/93	-0.6%	13.6%	Yes
93/94	12.3%	0.3%	
94/95	0.6%	-0.3%	
95/96	4.2%	15.4%	Yes
96/97	8.8%	6.7%	
97/98	14.5%	12.0%	
98/99	-19.0%	13.0%	Yes
99/00	3.4%	28.8%	Yes
00/01	3.1%	-17.6%	
01/02	-13.4%	11.3%	Yes
02/03	-18.5%	5.4%	Yes
03/04	18.0%	6.1%	
04/05	7.6%	5.6%	
05/06	10.8%	17.5%	Yes
06/07	1.2%	8.7%	Yes
07/08	9.0%	-4.7%	
08/09	-30.0%	-4.5%	Yes
09/10	17.0%	11.9%	
10/11	3.8%	10.0%	Yes
11/12	-12.1%	0.3%	Yes
12/13	1.1%	0.3%	
13/14	7.3%	9.7%	Yes
14/15	-0.3%	4.2%	Yes
15/16	-11.1%	3.1%	Yes
16/17	6.0%	5.4%	
17/18	2.8%	-2.6%	
Average	**1.0%**	**5.3%**	

Source: Bloomberg, Raymond James Ltd.

We found that during the summer period, defensive sectors came up in the top 3 including utilities, telecom and consumer staples. In fact, utilities have a 57% chance of performing positively between May and October with an average return of 3.6%, compared to 1.3% generated between November and April. During the winter period we noticed info tech, materials and health care were the top three outperformers. As such, ahead of the seasonally weak period, investors could trim sectors that have done well for them and rotate into defensive sectors in the summer. In the meantime, investors could put names on their watch list they may be interested to add to in the winter.

Buy & Hold Outperforms Favourable Period Since '88



Source: Bloomberg, Raymond James Ltd.

Conclusion

While it is not a bad idea to take profits, we believe clients should put cash back to work ahead of the winter period. We note that since the "sell in May and go away" phenomenon has not worked over the past two years, investors would need to be disciplined in order to see the fruits of this strategy as displayed over the past 30 years. So the takeaway here is, find names in the summer periods that would outperform, buy 'em in the winter and trim 'em in the summer (and vice versa). From the sectors that perform well in the summer months, our highest conviction names include Fortis (FTS-T), BCE (BCE-T) and North West (NWC-T).

Defensives Lead Performance During the Weak period

Sectors	Average Return			Frequency of Positive Return	
	May - October	November - April	Outperformance	May - October	November - April
Utilities	3.6%	1.3%	*2.3%*	57%	52%
Staples	5.3%	5.5%	*-0.2%*	60%	57%
Telecom	4.4%	5.1%	*-0.8%*	58%	56%
Financials	4.0%	5.9%	*-1.9%*	66%	64%
Real Estate	0.2%	3.4%	*-3.2%*	52%	57%
S&P/TSX	**1.0%**	**5.3%**	***-4.3%***	**56%**	**63%**
Discretionary	1.4%	6.0%	*-4.6%*	53%	61%
Energy	1.1%	5.9%	*-4.8%*	53%	56%
Industrials	0.4%	7.0%	*-6.5%*	54%	57%
Health Care	0.3%	6.8%	*-6.6%*	50%	57%
Materials	-0.9%	6.2%	*-7.1%*	51%	52%
Info Tech	0.9%	10.7%	*-9.8%*	53%	57%

Source: Bloomberg, Raymond James Ltd.

Important Investor Disclosures