Technical Market Comment

***e*Research Corporation** is pleased to provide a technical comment on the "Sell in May" saying, courtesy of Don Vialoux of **EquityClock.com**, and **TimingTheMarkets.ca**, both of which technical analysis services are regular daily features on the *e*Research website. Don Vialoux's services focus on technical analysis and seasonal investing.

SELL IN MAY ADAGE

Over the past couple of weeks, we have presented a number of statistics pertaining to the semi-annual rotation strategy of "Sell in May and Go Away."

In the weaker period for the broad equity market, as gauged by the S&P 500 Index, between May 5th and October 27th, the large-cap index has averaged a gain of a mere 0.20% since 1950 with positive results recorded in 63% of the seasonally-weak periods. This compares to an average gain of 8.42% between October 27th and May 5th with positive results recorded in 81% of the timeframes.

Both results exclude returns attributed to dividends, which would add to the outcome of both scenarios. However, while data since 1950 makes it clear what the better six-month opportunity is for equity positions within a portfolio, the period that surrounds the summer months has not always been the weaker case.

Prior to 1950, the seasonal profile of the U.S. market had a different appearance, showing that the stronger period for stocks was between May to October, on average, with the weaker period evident between October and May. Between 1870 and 1950, the U.S. equity market gained an average of 2.02% between May and October, while the other half of the year, what we now attribute to being the period of seasonal strength for stocks, produced an average gain of 1.35%.

The summer period recorded gains in 46 of the 79 periods tested, while the winter period, between November to April, saw positive results in 40 of the periods. This historic result can be attributed to the primarily agriculture-driven economy prior to World Wars 1 & 2, causing equity market returns to peak around the time of the annual harvest.

Today, with the pickup in consumer spending in the fall and spring and increased manufacturing activity in the first half of the year, stocks have shown their best gains of the year between October and May, while returns during the off-season are rather lacklustre by comparison.

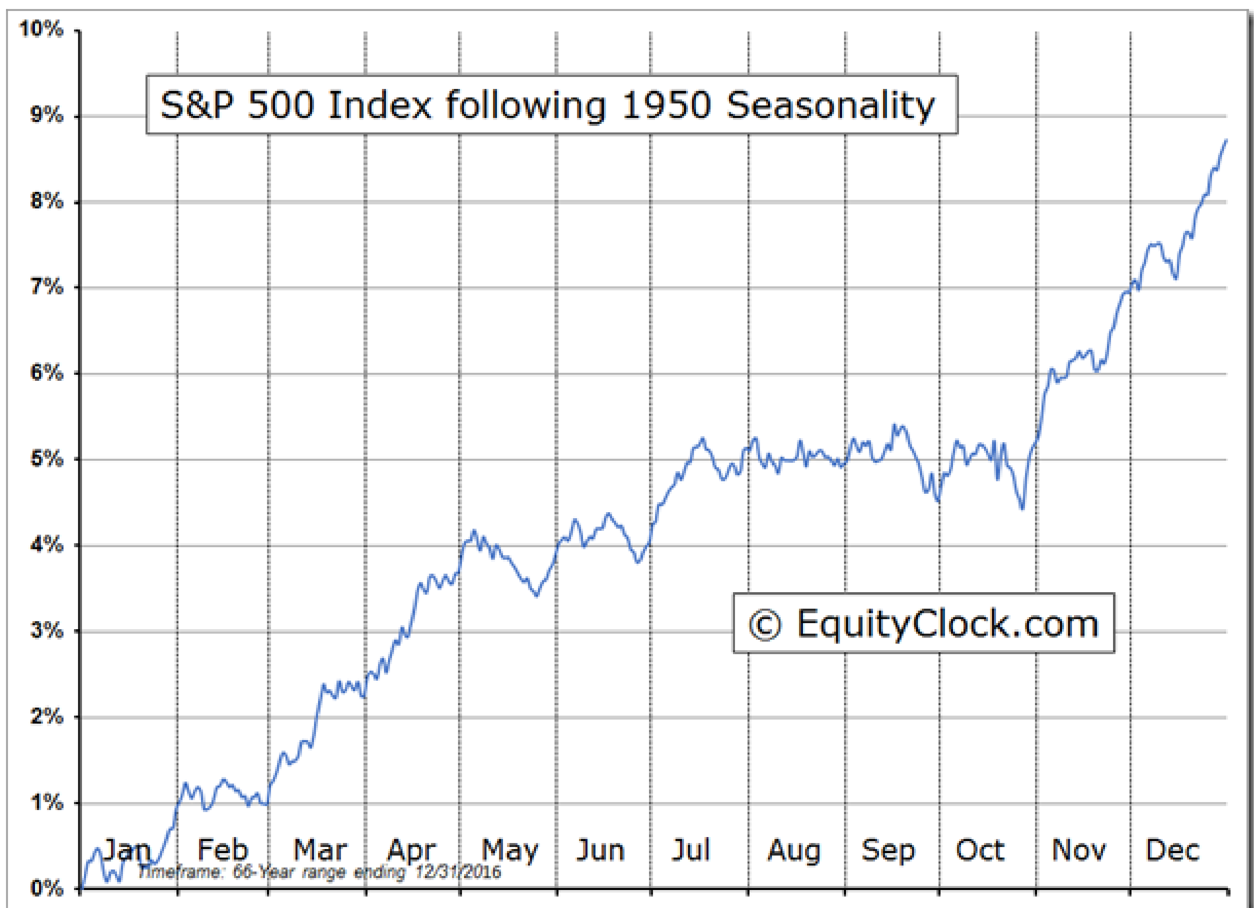
When considering the semi-annual "Sell in May" strategy, one must consider that not all benchmarks are created equally. Cyclical constituents, such as materials and industrials, have played a dominant role in dragging upon broad market benchmarks during the summer period.

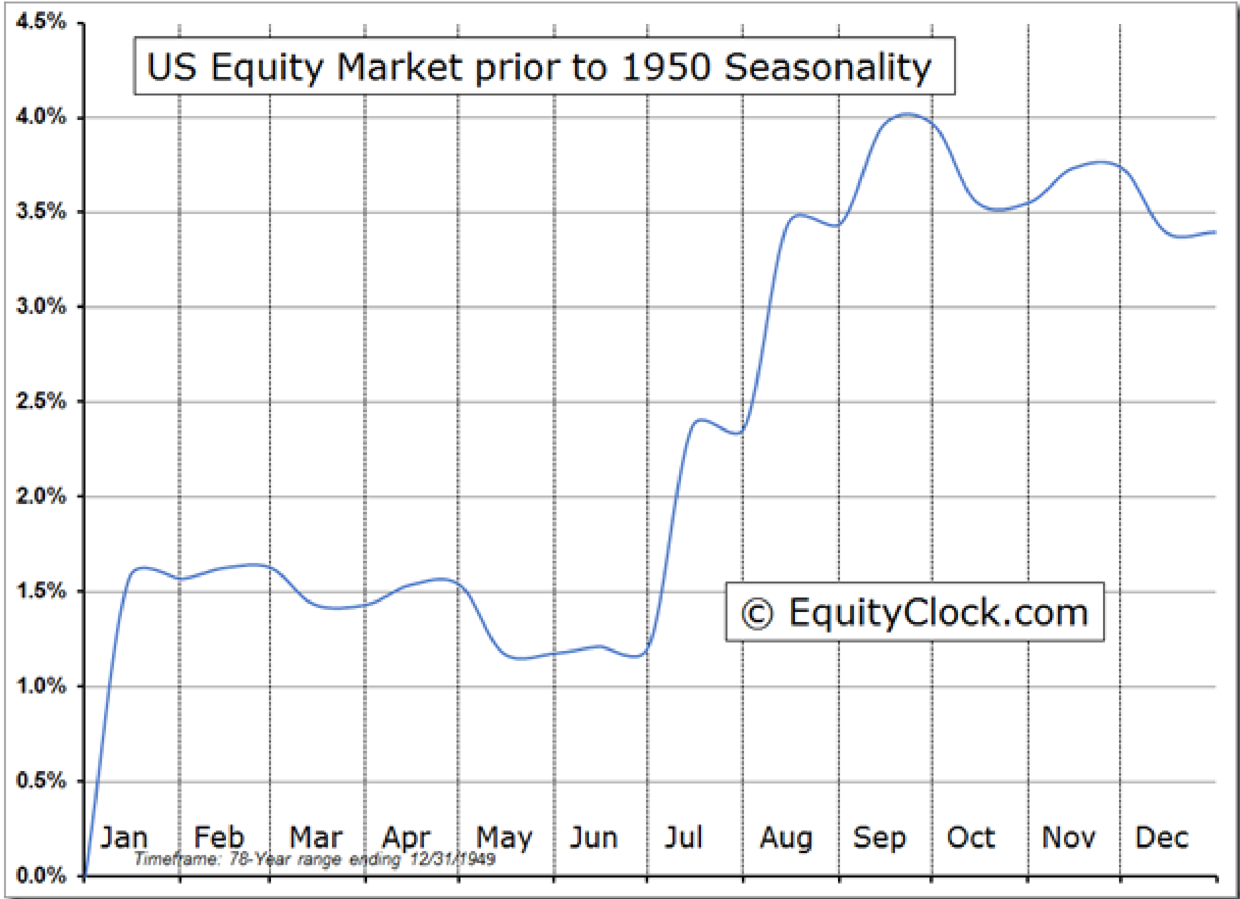
A number of cyclical sectors trade lower in the May through October period following the ramp up in economic activity in the first half of the year. With positive fundamental catalysts generally on the decline through the third quarter, investors tend to shift to less cyclically sensitive areas, such as health care, utilities, and consumer staples, which typically hold their value better in times of volatility than higher beta counterparts.

As a result, benchmarks that have greater exposure to defensive constituents or even growth areas of the economy, such as technology, have still realized healthy returns, on average, at various points in the weak period for the broad market.

So, while the average profile for the equity market over the months ahead is certainly not as favourable as the six-month period that preceded it, the tendency for losses warranting a liquidation of entire equity portfolios is by no means a given.

What is more typical during this summer period is volatility, which those nimble enough can benefit from in both directions.





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