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Summertime Blues: Sell in May?

Although summer doesn't officially begin for three more weeks, many Americans recognize Memorial Day as the unofficial start of the season. For many, summer brings thoughts of warm weather, beach vacations, and longer days; however, in the investment world, the summer months are associated with lackluster returns, also known as the **"Summertime Blues."** This year, we enter the summer months following relatively good, if bumpy, start to the year, which has the S&P 500 up 11.02% and the Dow up 7.71%. Recently, each of the major US indices came within striking distance of or eclipsed the all-time highs they established last year. However, they have all pulled back showing decreasing breadth in participation. Today we'll shed some light on the historical performance of the summer months to see how the Summertime Blues came to be.

The table below shows Index returns during the summer months (May 31st to August 31st) back to 1981. The S&P 500 and the Dow Jones Industrial Average have each finished in negative territory in 15 of the past 38 summers (or about 39.5% of the time). Of those 15 down summers, there were 13 summers in which SPX and DJIA were both down at the same time. While less than half of the summers have been negative for these benchmarks, the bad summers were indeed bad. In the summer of 1990, the SPX fell -10.69%. In 1998, it saw a drop of -12.24%; but the worst summer came in 2002 during the tech crash when the index declined -14.16%. During the summer of 2008, which began a famously longer slide, SPX fell -8.39%. The market has bucked the trend recently, however, as both indices have posted gains during the most recent three summers.

Market Performance During the "Summer Months"

Year	DJIA Performance	SPX Performance
1981	-11.12%	-7.39%
1982	9.98%	6.79%
1983	1.35%	1.23%
1984	10.82%	10.69%
1985	1.41%	-0.53%
1986	1.15%	2.22%
1987	16.21%	13.68%
1988	0.02%	-0.27%
1989	7.28%	9.67%
1990	-9.12%	-10.69%
1991	0.53%	1.44%
1992	-4.11%	-0.34%
1993	3.51%	2.98%
1994	4.13%	4.16%
1995	3.26%	5.34%
1996	-0.48%	-2.56%
1997	3.97%	6.03%
1998	-15.29%	-12.24%

Year	DJIA Performance	SPX Performance
1999	2.55%	1.43%
2000	6.58%	6.83%
2001	-8.82%	-9.73%
2002	-12.71%	-14.16%
2003	6.39%	4.61%
2004	-0.34%	-1.37%
2005	-0.85%	1.61%
2006	1.81%	1.97%
2007	-2.27%	-4.06%
2008	-8.66%	-8.39%
2009	11.72%	11.04%
2010	-1.20%	-3.68%
2011	-7.61%	-9.39%
2012	7.35%	5.63%
2013	-2.02%	0.14%
2014	2.28%	4.15%
2015	-8.23%	-6.42%
2016	3.45%	3.53%
2017	4.47%	2.48%
2018	7.25%	6.34%
Averages	0.65%	0.60%

Data reflects performance from 5/31 - 8/31 of each year. Performance figures are price returns and do not include dividends, fees, or other transactions costs.

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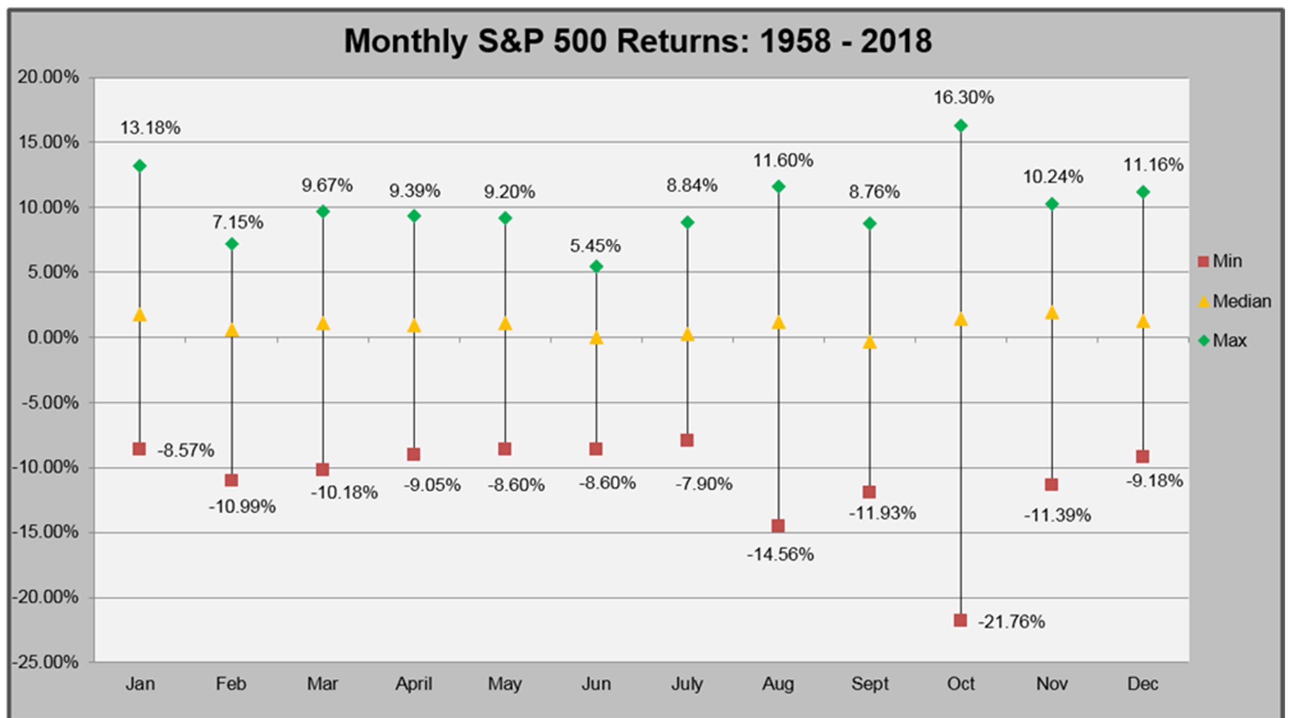
In an effort to determine if there is one month that tends to have an outsized effect on summer returns as a whole, we compiled a monthly summary of S&P 500 returns going back to 1958. What we found is that the summer months tend to have a lower median return than most of the other months of the year. It is actually the month of September that has historically provided the lowest median return at -0.35%; but it is followed closely by June which has a median return of just 0.02%. Notice too that the spread, i.e. the max return in a given month versus the minimum return in a given month, is relatively low for the summer months (namely June and July). A closer look at the month of June reveals a max return of 5.45% in the last 60 years, while every other month, except February, had a maximum return in excess of 8%. Clearly, June has historically been one of the weaker months for SPX returns. However, we can't blame the Summertime Blues on June alone. August has experienced the second largest drawdown (after October) at -14.56%, which compares unfavorably to the other months' minimums which seem to hover around -10%. The data below indicates that the Summertime Blues cannot be traced back to just one month.



To take this concept one step further, we looked at four hypothetical portfolios specific to each of the four seasons. Defined as follows:

Winter Portfolio Dates: 11/30 - 2/28
Spring Portfolio Dates: 2/28 - 5/31
Summer Portfolio Dates: 5/31 - 8/31
Fall Portfolio Dates: 8/31 - 11/30

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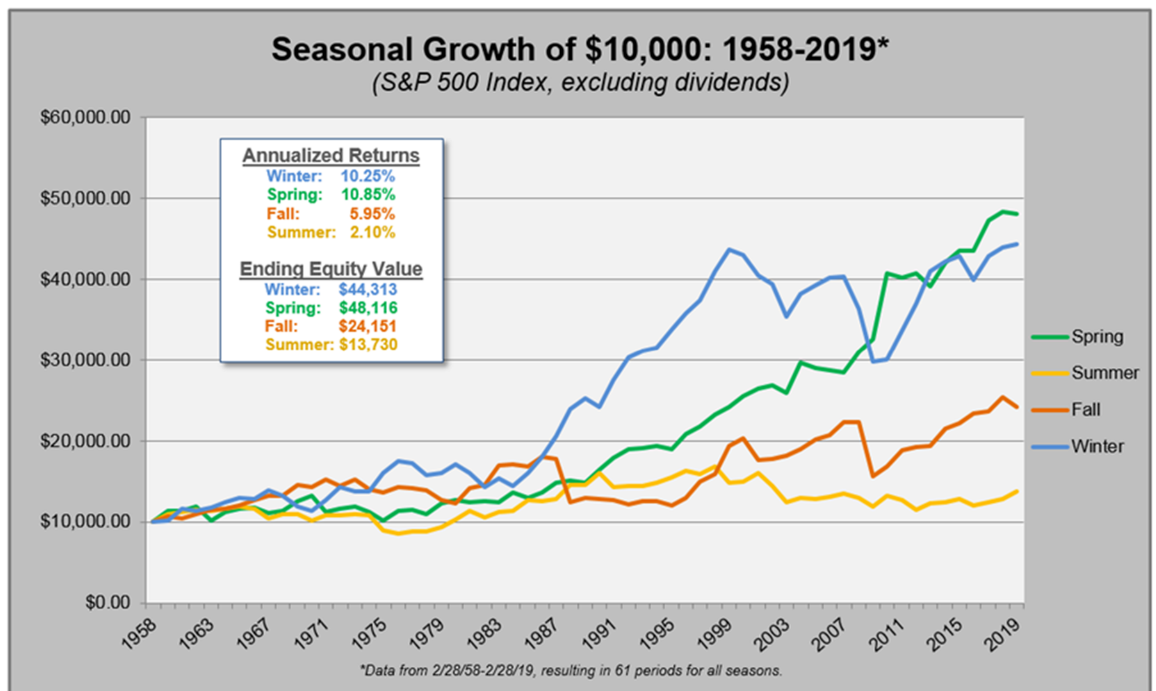
The end result? The summer portfolio greatly underperformed the other three seasons - fall, winter, and spring. If you were to invest only during the spring months (March through May), the initial investment would have had a cumulative return of 381% from 1958 through 2018, with an average annualized return of 10.85%, making it the best performing seasonal portfolio. The summer months pale in comparison to the others, gaining a measly 37% over the last 60 years! That results in an average annualized rate of return of only 2.10%.



There have been exceptions along the way, but the Summertime Blues have in fact been a fairly common occurrence for market participants over the last 60 years and the summer months have occasionally produced some significant down markets. However, this does not mean that we should all simply go to cash at the end of every spring - faced between the summer market return or earning nothing by going to cash, on average, investors have ultimately been better off by taking the market return. What it does mean, however, is that leading up to and during this historically weak period, we would be well served to pay extra attention to our market indicators.

Please contact us to learn more about rules-based disciplined investing and how it can help your clients. The Bluegrass Asset Management team can be reached at 502-429-0196, ask for John Casconi, Rodger McAlister or Jennifer Grilliot.