BLUEGRASS
ASSET MANAGEMENT

Sell in May and Go Away???

Published – 5/4/2020

We are now into the month of May, and while it's easy to forget about such things with everything else currently going on in the market and world, it will also officially mark the beginning of the "seasonally weak" half of the year, which lasts from May through October. We are all familiar with the saying "sell in May and go away," which conjectures that we would do just as well to sell all of our holdings as we would be invested in the market during the months of May through October.

Although the last couple of months have certainly not felt like it, the end of April also brought with it the end of the seasonally "strong" period, which began with the close of the market on October 31. Over this period, the Dow Jones Industrial Average returned -9.98%, making it one of the worst "strong" periods on record.

The premise of the "Market Seasonality" study is that historically speaking, the market performs far better during the November through April time period than it does from May through October. On its own, that is not a particularly profound statement, however, when we examine the magnitude of this effect over the years, its significance becomes clear. Consider this: if you had invested $10,000 in the Dow Jones on May 1st and sold it on October 31st each year since 1950, your cumulative return would be only about $1,700. Meanwhile, the same $10,000, invested only during the seasonally strong six months of the year, would now be worth around $970,000! Put another way, almost all of the growth of the Dow Jones Index since 1950 is effectively during the "good" six months of the year.

In the graph at the bottom, we have reproduced the US Market Seasonality strategy that was first published in the Stock Trader's Almanac beginning in 1950 based upon the Dow Jones Industrial Average. The green line reflects the May 1st through October 31st period, while the red line shows November 1st through April 30th. You will note that a theoretical $10,000 initial investment in 1950 is barely on the positive side when invested only from May 1st through October 31st. On the other hand, an identical $10,000 initial investment grew to more than $970,000 with an average annualized return of 7.02% if invested only from November 1st through April 30th each year.

BLUEGRASS
ASSET MANAGEMENT

DJIA Performance During Seasonal Periods

Data from 4/30/1950 through 4/30/2020

Year	Seasonally Weak *May - Oct.*	Seasonally Strong *Nov. - April*
1950	5.36%	15.16%
1951	1.24%	-1.80%
1952	4.50%	2.05%
1953	0.39%	15.78%
1954	10.27%	20.88%
1955	6.86%	13.47%
1956	-7.03%	3.02%
1957	-10.79%	3.36%
1958	19.16%	14.82%
1959	3.66%	-6.94%
1960	-3.55%	16.95%
1961	3.71%	-5.48%
1962	-11.36%	21.69%
1963	5.23%	7.35%
1964	7.69%	5.64%
1965	4.18%	-2.82%
1966	-13.56%	11.15%
1967	-1.93%	3.69%
1968	4.40%	-0.23%
1969	-9.91%	-14.01%
1970	2.65%	24.63%
1971	-10.91%	13.73%
1972	0.14%	-3.57%
1973	3.81%	-12.53%
1974	-20.46%	23.41%
1975	1.79%	19.23%
1976	-3.20%	-3.94%
1977	-11.71%	2.32%
1978	-5.36%	7.88%
1979	-4.59%	0.17%
1980	13.15%	7.92%
1981	-14.55%	-0.49%
1982	16.90%	23.64%
1983	-0.08%	-4.44%
1984	3.13%	4.20%
1985	9.24%	29.81%
1986	5.26%	21.76%
1987	-12.81%	1.95%
1988	5.72%	12.57%
1989	9.36%	0.44%
1990	-8.07%	18.24%

Year	Seasonally Weak *May - Oct.*	Seasonally Strong *Nov. - April*
1991	6.28%	9.45%
1992	-3.95%	6.24%
1993	7.38%	0.03%
1994	6.15%	10.57%
1995	10.05%	17.11%
1996	8.27%	16.25%
1997	6.18%	21.79%
1998	-5.20%	25.57%
1999	-0.53%	0.02%
2000	2.21%	-2.15%
2001	-15.46%	9.60%
2002	-15.58%	0.99%
2003	15.58%	4.33%
2004	-1.94%	1.65%
2005	2.43%	8.88%
2006	6.28%	8.13%
2007	6.64%	-7.97%
2008	-27.26%	-12.41%
2009	18.91%	13.34%
2010	1.00%	15.22%
2011	-6.68%	10.53%
2012	-0.89%	13.31%
2013	4.76%	6.66%
2014	4.88%	2.59%
2015	-0.99%	0.62%
2016	2.07%	15.42%
2017	11.64%	3.36%
2018	3.94%	5.88%
2019	**1.70%**	**-9.98%**

Average Return		
Buy and Hold	*"Weak"*	*"Strong"*
8.09%	0.65%	7.22%

Average Ann. Compounded Return		
Buy and Hold	*"Weak"*	*"Strong"*
7.00%	0.23%	6.75%

Best & Worst Year (or 6mo.)		
	"Weak"	*"Strong"*
Best	19.16%	29.81%
Worst	-27.26%	-14.01%

All returns data based upon the Dow Jones Industrial Average (DJIA) from April 30th, 1950 through April 30th, 2020. The "Seasonally Strong" returns are based upon investment during the months of November through April (of the following calendar year). The "Seasonally Weak" are based upon investment during the months of May through October.

BLUEGRASS
ASSET MANAGEMENT

There's no question that the November through April period has provided substantially better returns. Whether you average it out, annualize it, or compound it, there is clearly a significant spread between the average six-month returns during these contrasting seasonal periods.

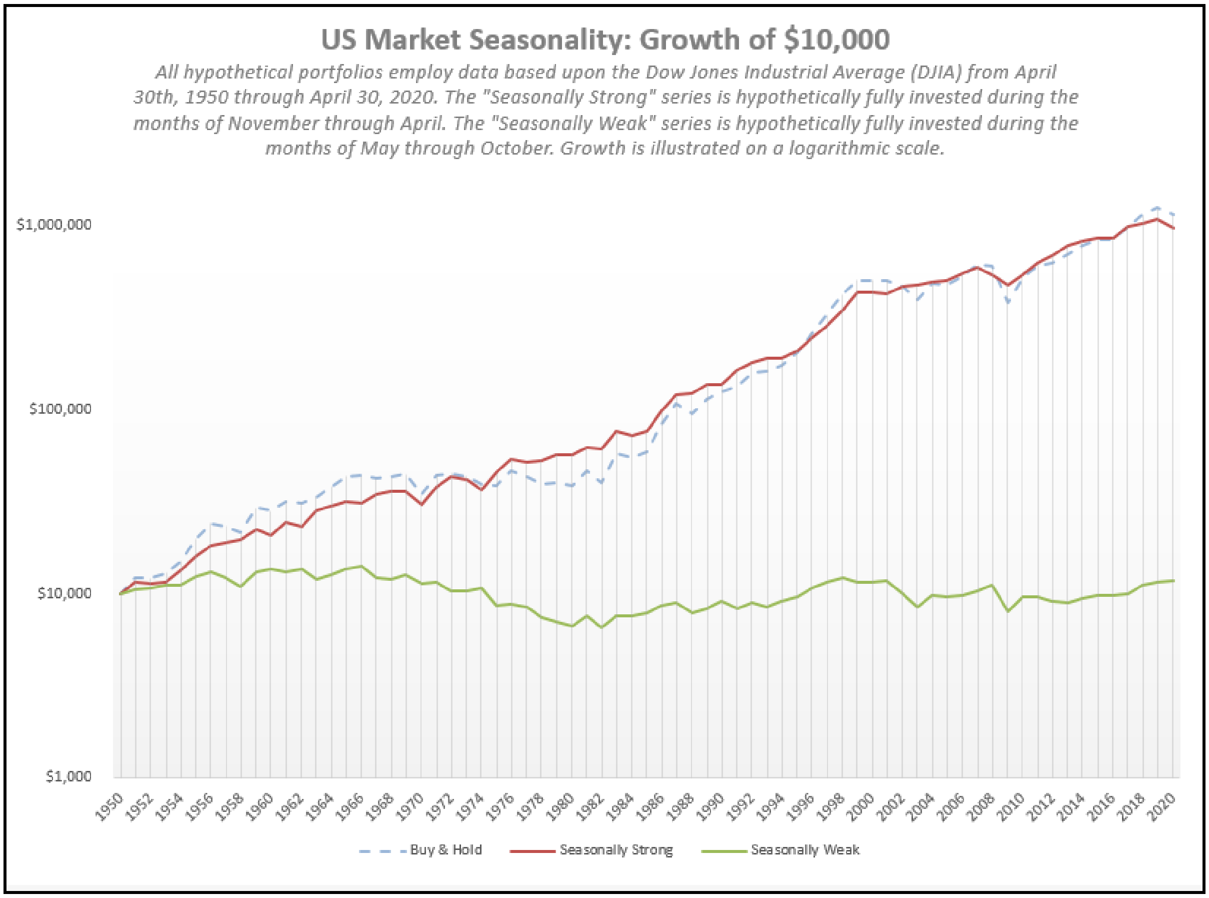
Market Seasonality Notes:

- Since April 30th, 2000, the Dow Jones Industrial Average (DJIA) has gained over 125%. However, the Index is up just over 1.62% when we isolate the seasonally weak periods.
- 2019 (November 2019 – April 2020) was the worst seasonally strong period since 2008 and the fourth worst on record.
- During the seasonally weak May to October periods, 27 out of the 70 years examined finished down, while there were only 15 years during which the seasonally strong period produced a negative return.
- There have been only three years when the "good six months" have lost more than 10% (1969, 1973 and 2008), while the "bad six months" have seen losses of 10% or more 11 times. The most recent “good six months” missed joining the list of double-digit losers by just a couple of basis points.
- There have been 15 instances since 1980 where the "good six months" have posted a double-digit return, with five of those returning more than 20%.
- Interestingly enough, following the times when the "bad six months" did produce double-digit losses (11 total since 1950), the "good six-month" period afterward lost more than 1% only once (2008) and on four occasions, actually posted double-digit positive returns (1962, 1966, 1971, & 1974)
- Beginning in November 2009, the Dow experienced a streak of four consecutive positive double-digit efforts during the strong six-month periods, the second-longest such streak in history. The first began in 1994 where the Dow finished the seasonally strong period with double-digit gains for five consecutive periods.

As the last few months have illustrated as we have experienced one of the most volatile periods in history during the seasonally strong period, market seasonality is a historic trend, it is far from a guarantee. This year's seasonally “strong” period was obviously no match for the volatility brought on by the corona virus pandemic, with the DJIA losing just a shade under 10% from November 1, 2019 through April 30, 2020. Obviously, this study is not a sophisticated tool for risk management

nor can it tell us how any given six months will go, but it is interesting and does expose long-term biases within the market that many investors are not aware of.

As we head into the seasonally weak period the technical outlook for the market is something of a mixed bag. With the market already on uneasy footing, the transition into the seasonally weak period is just one more reason to remain vigilant with regard to the positioning of your portfolio.



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.