# GO AWAY IN MAY?

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Don't fight the Fed . The trend is your friend. The market climbs a wall of worry. Sell in May and go away. We've all heard these pithy market adages before, but is there an element of truth behind them? Given that May has arrived, let's examine the wisdom of selling in May. We've heard many times that if an investor had been out of the market on the best five to 10 days in the last 40 years, that person would have radically underperformed the market as a whole. But what if the investor had been out of the market for roughly *half* the trading days for each and every year all the way back to 1979? How would that investor have done—particularly if that person had sold his or her equity position each April 30 and did not invest in the U.S. stock market again until six months later, on November 1? How would that investor have done compared to being invested in the S&P 500 Index? Or compared to a balanced portfolio that rebalanced at the end of each year, so that it was 50% equity and 50% fixed income each and every year? WisdomTree recently ran some tests to see. We created two simulated "go away" strategies: one that measures the returns of the S&P 500 Index from November 1 to April 30 of each year and then measures the returns of the Barclays U.S. Aggregate Index from May 1 to October 31 (Go Away in May); and a second strategy (Go Away in November) that assumes an investor owned equities from May 1 to October 31, and then owned the Barclays U.S. Aggregate from November 1 to April 30. In addition to those two strategies, we created a portfolio that blended 50% stocks and 50% bonds as a baseline to show how a balanced portfolio that rebalances at year-end would have performed over the same period.

| Strategy | January 1, 1979 - March 31, 2016 Average Annual Total Returns | | | | | | |
|---|---|---|---|---|---|---|---|
| | YTD | 1 Year | 5 Years | 10 Years | 20 Years | 30 Years | Analysis Period |
| Go Away In May | 1.35% | 0.91% | 10.21% | 8.33% | 10.22% | 11.89% | 12.98% |
| Go Away In November | 3.03% | 2.84% | 5.07% | 3.61% | 3.44% | 4.73% | 6.56% |
| 50/50 Portfolio | 2.19% | 1.88% | 7.90% | 6.50% | 7.31% | 8.65% | 10.10% |
| S&P 500 | 1.35% | 1.78% | 11.58% | 7.01% | 7.98% | 9.94% | 11.67% |

Sources: Zephyr StyleADVISOR, Bloomberg, as of 4/6/16. Past performance is not indicative of future results. You cannot invest directly in an index.

As the table above shows, a strategy that shifted from stocks to bonds in May and then rotated again into equities in November would have generated an annualized return from 1979 to 2016 of 12.98%, versus 6.56% if the investor had done the reverse and "gone away in November." That annualized return of nearly 13% would have outpaced the S&P 500 by more than 130 basis points (bps) per year with a 30% reduction in annualized volatility. The same strategy beat an all-year-round 50/50 allocation to stocks and bonds by 288 basis points on an annualized basis. Interestingly, from January 1, 1979, through December 31, 1999, the 17.9% annualized total return the S&P 500 Index generated was only slightly better than the 17.6% the Go Away in May strategy generated. Moreover, the Go Away in May strategy was able to generate 98% of the S&P 500's return with just 71% of the equity market's volatility over that period. Thereafter, that relationship changed. From January 1, 2000, through March 31, 2016, the Go Away in May strategy returned 7.27% on an annualized basis, outperforming the S&P 500 Index by 319 basis points per year, with a similar reduction in market volatility.[1]

**Sector Returns, "Going Away in May"** What happens at the sector level when an investor goes away in May? Interestingly, the same pattern emerged. The sectors of the S&P 500 generated higher average returns in the November through April period than they did from May through October, back to 1989, the longest period for which we had comparable data. Displayed below is the average six-month cumulative return for each of the 10 sectors of the S&P 500 and the S&P 500 Index over those different six-month periods.

**Average 6-Month Cumulative Total Returns, S&P 500 Index and S&P 500 Sectors, November 1, 1989 – October 31, 2015**

| | May - Oct | Nov - April | Nov - April Excess Return |
|---|---|---|---|
| S&P 500 Index | 2.58% | 7.82% | 5.24% |
| Materials | -1.22% | 10.55% | 11.76% |
| Discretionary | 0.95% | 10.87% | 9.91% |
| Industrials | 0.84% | 10.25% | 9.41% |
| Energy | 2.26% | 9.05% | 6.80% |
| Financials | 2.48% | 8.21% | 5.73% |
| Info Tech | 3.92% | 9.17% | 5.25% |
| Telecom | 2.77% | 4.57% | 1.80% |
| Utilities | 3.93% | 5.30% | 1.37% |
| Health Care | 5.95% | 6.90% | 0.95% |
| Staples | 5.86% | 5.95% | 0.09% |

Source: Zephyr StyleADVISOR, as of 4/19/16. Past performance is not indicative of future results. You cannot invest directly in an index.

Over the last quarter century, the S&P 500 Index average return from November through April has been more than 5 percentage points higher than its average return from May through October. Interestingly, the sectors that held up best on a relative basis during the May through October period were the four defensive sectors of the market: Consumer Staples, Health Care, Utilities and Telecom. It is outside the scope of this blog post to explain the reasons that may account for why U.S. stocks have underperformed from May through October. For now, let us simply digest that it has happened and that it has persisted in the current investment landscape, through two bear markets and two bull markets, with robust resiliency, back to 2000.

**Conclusion** One of the most interesting aspects of "Go Away in May" is the evidence that it continues to exist, despite a vernacular awareness of its existence. Net-net: Given the market's current heightened valuation and current dependence on the direction of oil prices, the reality that we are entering a seasonally and historically subpar period for the market should give investors an additional reason to proceed with caution in the months ahead.

[1]Returns specified in this paragraph are from Zephyr StyleADVISOR and Bloomberg, as of 4/6/16.

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## DEFINITIONS

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.

**S&P 500 Index** : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Barclays U.S. Aggregate Bond Index, 1-3 Year** : This index is the 1-3 Yr component of the U.S. Aggregate index.

**Basis point** : 1/100th of 1 percent.

**Volatility** : A measure of the dispersion of actual returns around a particular average level. .

**Bear market** : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

**Bullish** : a position that benefits when asset prices rise.