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The Case for Holding in May and Not Going Away

Conventional wisdom calls for bailing on stocks every May through October. Ignore that advice.

By Rebecca Lake, Contributor |May 11, 2018, at 10:21 a.m.

If you've been investing for any amount of time, you've probably heard that it's best to "sell in May and go away" to avoid the fallout from a midyear seasonal decline in the market.

"The stock market has historically provided lower returns and higher volatility from May through October," says Daniel Kern, chief investment officer for TFC Financial Management in Boston. "The adage to sell in May and go away appeals to investors hoping to avoid summer swoons."

There's just one hitch: Basing your investment strategy on seasonal patterns may harm your portfolio.

While average stock market returns during the summer and fall months historically have lagged the rest of the year, "there's a major difference between relative underperformance and negative performance," Kern says. He points out that since 1972, the Standard & Poor's 500 index has yielded positive returns from May through October 67 percent of the time.

Selling off in May also flies in the face of buying and holding. "A buy and hold investor looks at their objectives and remains invested, regardless of short-term volatility," says Kate Magrath, director for iShares U.S. product management and strategy at BlackRock. "Investors who are able to separate the news from the noise and avoid some of the common investing pitfalls, like reacting to day-to-day market movements, can be rewarded over the long term."

The warmer weather may have a chilling effect on your enthusiasm for the market, but here are four good reasons to remain invested through the lazy summer months.

Seasonal declines aren't guaranteed. The historical reasoning behind "sell in May and go away" comes from the long-term averages of the market, says Joe Heider, president of Cirrus Wealth Management in Cleveland. "September is generally the worst-performing month of the year, and the summer months tend to be flat. So if you split up the year from October to May, you have a better performance pattern during those months."

But any stock market patterns can have significant exceptions, says Robert Johnson, the former president and CEO of the American College of Financial Services in Bryn Mawr, Pennsylvania. "Just because a pattern exists, doesn't mean it occurs every year."

The market's summertime performance in 2017 is a prime example. The Dow Jones industrial average closed at 20913.46 points on May 1, climbing to 23377.24 by Nov. 1. Over that same period, the S&P 500 gained nearly 200 points. "The S&P 500 index returned over 9 percent from May through October," says Kei Sasaki, regional chief investment officer for Wells Fargo Private Bank in New York. By comparison, the S&P 500 index returned just 3.8 percent between October 2017 and April 2018, he says.

Shifting into more conservative assets may seem like the right move when you expect stocks to fizzle over the summer, but that strategy can backfire, Kern says. "Historical performance indicates that the average stock market performance from May through October exceeds that of cash."

Volatility can happen any time. Winter and spring might seem like safer bets, but volatility doesn't distinguish between seasons. "September and October tend to be volatile months because they mark the end of the summer break in the market," says Mark Farnan, president of Retirement Income Planning in Madison, Wisconsin. "There's increased trading volume when investors come back in September and October, which may lead to volatility."

Once again, though, 2017 contradicted this rule. The S&P 500 rose 2.2 percent last October, while the DJIA increased 4.3 percent. October marked the seventh straight month of gains for stocks.

Conversely, February through April tend to be viewed as stronger months for investors, but recent history shows that the market sometimes zigs when it's expected to zag. February 2018 marked the worst performance for stocks in two years, as the S&P 500 lost 4 percent. Stocks rebounded slightly in March but still closed on a down note.

The solution for dealing with volatility is simple, Sasaki says. "It's through diversification that investors can stay invested and avoid missing market upturns, while managing the downside risks that can emerge during a volatile period."

Trading costs can shrink returns. Selling in May and going away during the summer months can have a costly unintended consequence: handing over more of your returns in trading fees. "Between advisor fees, separately managed account manager fees and the underlying product fees, the tab can quickly add up," says Vinay Nair, founder and chairman of New York-based investing science platform 55ip.

Nair says that a 100-basis-point, or 1 percent, reduction in fees can translate to $1.32 million in savings for an investor with $10 million to invest over 10 years. That's 13.2 percent of the investment amount. "This savings is real money that otherwise would eat away at an investor's returns."

The long-term impact is just as significant for small investors who buy and sell seasonally. Paying just 1 percent in trading fees annually results in you having 30 percent less money over 30 years, says **Michele Lee Fine, president of Cornerstone Wealth Advisory** in New York. "Trading costs aren't just the commissions one pays to buy or sell investments; it's also a function of the price received when selling and ultimately paid when buying back," Fine says.

And there's the opportunity cost of squandering some of your money on seasonal trades instead of leaving it long term in the market. "You can never recover what not paying these costs could have afforded you," she says. In other words, bailing on the market each summer can diminish the returns your investments have already produced and sacrifice potential growth while you remain on the sidelines.

Lower trading volume doesn't mean falling prices. It's a mistake to assume that low summer trading volume means prices will be low or stagnant.

Lower trading volumes are not a market indicator, Kern says. Sometimes prices go up when there's low trading volume, and sometimes they go down. "Summer vacations tell [us] much more about price volatility than about the direction of markets."

Instead, investors should consider how they might capitalize on any episodic volatility during the summer months, Sasaki says. In August 2015, for example, fears of a slowing Chinese economy triggered [a market sell-off](). Two months later, however, the market returned 11 percent. "Investors that failed to rebalance or stay invested missed out on that opportunity."

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