Chart of the Month

May 2017

Average Monthly % Change for the DJIA						
Month	Last 100 Years	% Positive	Last 50 Years	% Positive	Last 20 Years	% Positive
January	0.98	63%	0.88	60%	-1.00	45%
February	0.10	55%	0.34	58%	0.18	65%
March	0.57	60%	1.28	70%	1.63	70%
April	1.25	60%	2.09	66%	2.64	80%
May	0.09	54%	-0.01	50%	-0.01	50%
June	0.35	49%	-0.24	48%	-0.78	40%
July	1.44	62%	0.79	56%	1.08	65%
August	0.75	59%	-0.14	56%	-1.39	50%
September	-1.09	41%	-0.85	36%	-0.96	45%
October	0.25	61%	0.65	60%	1.96	70%
November	0.75	60%	1.27	66%	1.93	70%
December	1.55	74%	1.57	68%	1.47	70%

Source: Bespoke

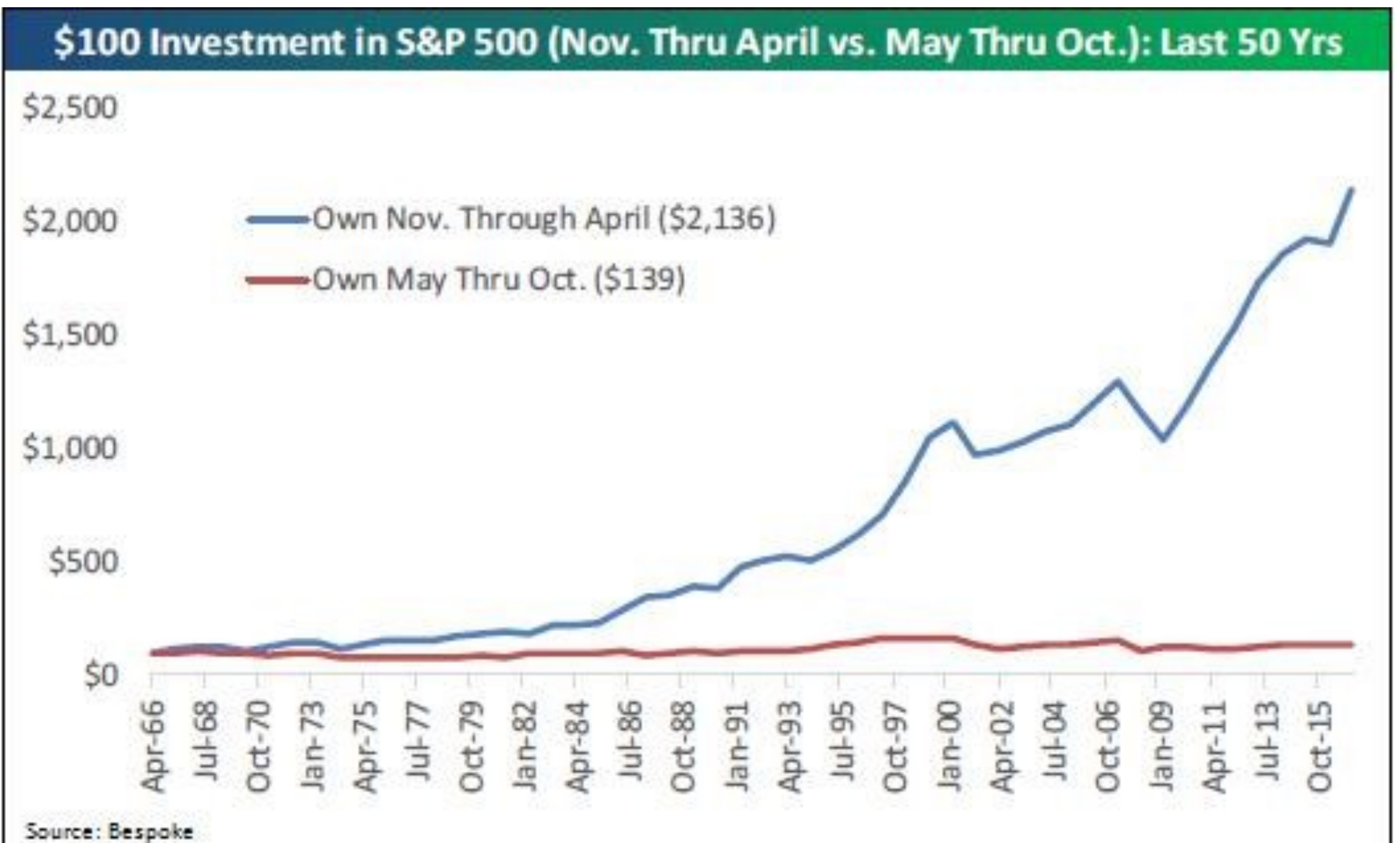
With the calendar turning to May, we say goodbye to the best six-month (November-April) period for the stock market over the past 20, 50, and 100 years. April, in fact, has been the single-best-performing month over the past two decades and half century. May, on the other hand, has typically produced no change while June, August, and September have been the three-worst months, generating, on average, negative returns.

As shown in the graph below, the results of a $100 investment in the S&P 500 from November through April only vs. May through October only have been dramatic over the past 50 years. The disparity would be even more overwhelming if the study included October, which has a bad reputation for performance that actually belies the truth, in the former and excluded it from the latter. Either way, is the underperformance of stocks in the "summer" months compared to the "winter" months a statistical fluke or something more fundamental? Although the exact reasons for this seasonal trading pattern are unknown, lower trading volumes during the summer and increased investment flows during the winter are generally cited as the primary drivers for the discrepancy in performance during these periods.

The downsides to implementing a "sell in May and go away" strategy are threefold. First and foremost, past performance is no guarantee of future results. Secondly, the practice of market timing will lead to additional transaction costs. Last but not least, traders, who turn unrealized gains into realized gains, will pay more in taxes than long-term investors because their profits are taxed as ordinary income rather than capital gains.

Based on the above, we would prefer to "hold" rather than "sell" in May. Besides, if the historical norms play out, the market is more likely to tread water than to experience a sizable correction. That said, we recognize that the market is always vulnerable to pullbacks even in the best of times. We have kept client portfolios fully invested since the election and have enjoyed robust gains during the past six months. However, we have been net *sellers* into strength of late as certain stocks have reached our target prices. While we are far from bearish, it is important to understand that investors have placed a huge down payment on fiscal policies proposed by the Administration, perhaps limiting the upside if and when they may be enacted and possibly exposing downside should they not become law.

Meanwhile, investors breathed a sigh of relief when congressional leaders reached an agreement late Sunday evening on a spending bill that would fund the government through the current fiscal year ending September 30. Attention now turns once again to earnings releases (including Apple on Tuesday and Facebook on Thursday) and economic announcements such as the jobs report on Friday. Of note, companies have reported the strongest earnings growth during the most recent period since 2011, and it is earnings that most likely will dictate the direction of the market in the months, quarters, and years ahead.



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