Always the Season

COMMENTARY
October 2021

Each spring, we hear echoes of a favorite line among many market watchers: the months of May through October have proved the worst of all in terms of return for U.S. investors, so better to watch out. Perhaps even cut and run. Among other such compartmentalizations of historical returns, the goal presumably is to show that there are ways to profitably time exposure to the market. Let it be known that we've yet to see such a review consistent enough to warrant a drift from our long-term approach to investing.

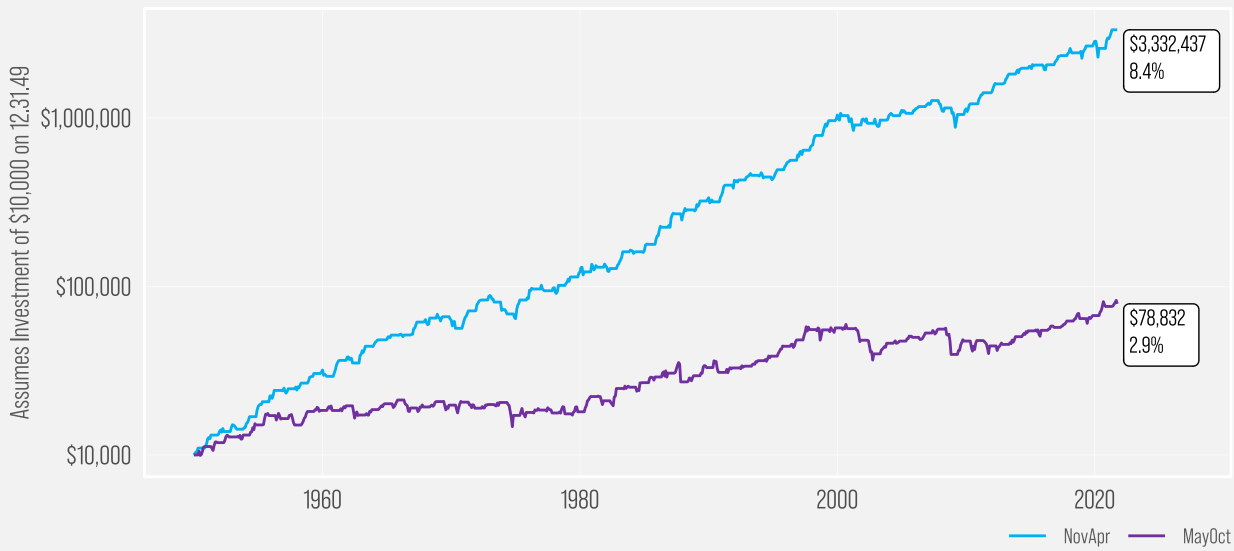
- It's true that the months of May through October seem to have been less favorable from a total return standpoint over the years
- The return is still positive, however, just less so than during other months of the year
- The upshot is that remaining invested throughout the year still has proved a more fruitful strategy than attempting to time market moves

Sell in May and Go Away?

It's a well-worn mantra in stock circles that the months between April and November might best be avoided. And market history for a time suggested investors might have been better off had they taken heed. But since the close of World War II, those following the refrain might have been disappointed. Sure, the cumulative long-term returns for U.S. stocks (as proxied by the S&P 500 Index) from the months that include May through October remain the worst of any consecutive six-month combination. And six of the ten-worst single-day declines in the S&P 500 have occurred in those months. However, looked at another way, as we do in Figure 1, that returns from May through October are on average worse than those during the other six months of the year is a fact without much consequence. Who cares that the returns are lower? They're still positive.

Figure 1: S&P 500 Index: November through April, versus May through October

We've split the index into two series, with one showing the total return if one hypothetically owned the uninvestible index only from November through April and the other from May through October. The takeaway should not be, however, that one should choose one part of the year over the other

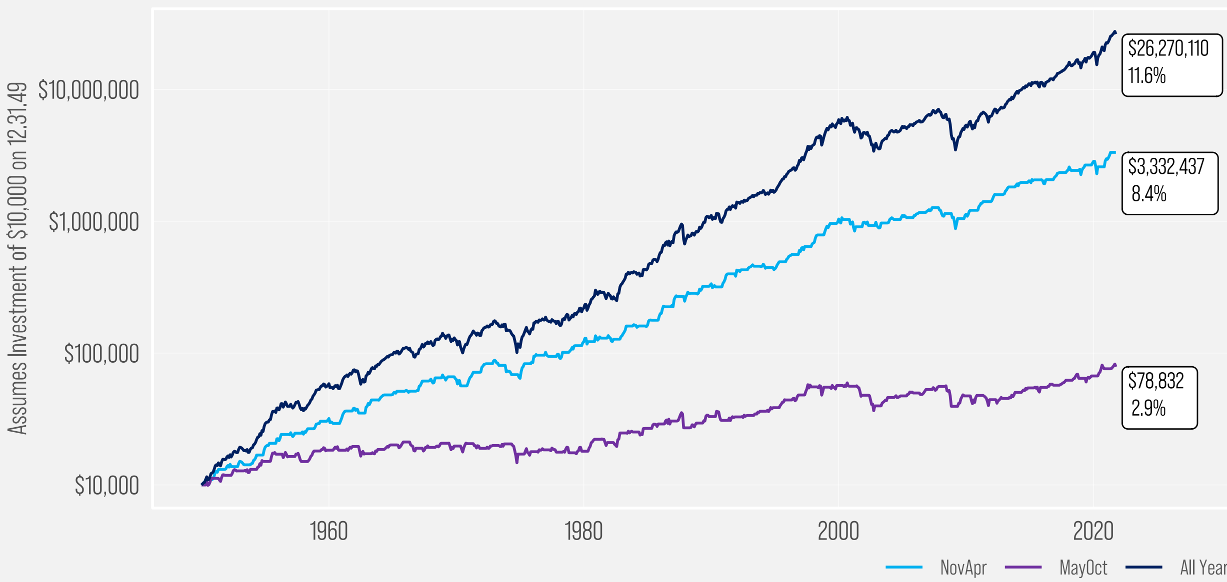


From 12.31.49 to 09.30.21. Logarithmic scale. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

And that means that investors might have been better off by remaining invested throughout the year. And by better off, we mean substantially so. Thanks to the "miracle of compounding," even what seems like relatively meager additional gains of 2.9% per year over the May-October period may have helped to build wealth over time. An investor who sat tight might have generated a total return of 11.6% per year since the beginning of the 1950s, much better than the 8.4% return generated when one invested in only the "best" six-month period of the year.

Figure 2: S&P 500 Index: November through April, versus May through October and All Year

Here, we add the total return for the index if held all year. Makes it quite obvious that it's perhaps best to stay invested year-round



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Getting the Full Picture

This is another fine example of market legend that potentially leads investors to make poor choices regarding long-term financial plans. The way the story often is offered, it may leave the impression that returns are negative, on average, across the May-October period. And folks might react "accordingly". As we've shown, though, returns are meaningfully positive over those months, too.

Markets have become a good bit more volatile seemingly in light of concerns with regard to global inflation trends, challenges within China's real estate sector, politicking over the U.S. national debt, insecurities around energy availability through the winter, and the stability of the Federal Reserve Board membership. Songs with rhymes like the one that prompted this note likely will grow louder. But we caution readers that, unless individual financial circumstances have changed greatly over the medium-term, it's often been the better course to remain true to an existing investment plan, rather than joining in with the time-the-market chorus.

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The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

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