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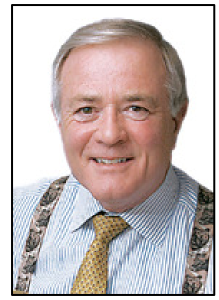

William Rutherford

Sell in May and go away? No way

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One of the oldest market timing indicators on Wall Street is “sell in May and go away.” This mantra is supposed to identify seasonality in the market. History shows that the weakest part of the year for stocks is the period from May to November. But critics think this theory confuses correlation and causation. This year should be especially bad, according to the pundits, because it is an election year – when there is more market uncertainty.

However, this was not the year to sell in May. This May, like the last several, was an up month for the market. Indeed, it was an up month for bonds as well. The Dow finished the month up 0.8 percent and the S&P was up 2.1 percent, its biggest monthly advance for the year. Both the Dow and the S&P notched their fourth straight month of gains. During the month, both indices traded at all-time highs.

The Dow is up 0.9 percent on the year, after a difficult January, and the S&P is up 4.1 percent on the year to date. Utilities, health care and energy led the way. Utilities alone are up 11.09 percent year to date, as investors sought yield. Transports are up 9.5 percent year to date. Transports are thought to be a leading indicator of market action, so their strong showing is a positive indicator for the market.

The Nasdaq rose 3.1 percent in May after two months of losses. The Nasdaq is up 1.6 percent year to date.

Safe haven government bonds also rallied in May, making it a clean sweep for the markets. Ten-year Treasury yields ended the month at 2.459 percent. The bond rally was contrary to expectations and caught traders off guard. Their explanation was that the bond rally was “technical,” which means that the traders did not see it coming.

Not all global markets kept up with the U.S. markets, with some notable exceptions. Russia, for instance, was up 12.12 percent on the month after tensions in Ukraine moderated. Still, for the year Russia is down 10.19 percent.

The Euro fell 1.7 percent in May versus the dollar, but is still up slightly on the year. An all-important European Central Bank meeting was held June 6, after this column was submitted; the ECB is pondering what to do about the struggling European economy and its frightening flirtation with deflation. Interest rates in Europe as set by the ECB are now at historic lows of 25 basis points, but may have to be reduced further to head off deflation. The ECB may even charge banks to deposit money with it in an effort to force banks to make loans to business and households.

Mario Draghi takes the threat of deflation seriously, and in the past has vowed to “do all that is necessary” to get the European economy out of its funk. Traders, hedging their bets, sold euros in advance of the ECB decision. If the ECB does not take drastic action, expect a sharply negative market reaction.

In the U.S., consumer spending numbers due out June 6 (after the submission deadline) are expected to show a rise of 4.4 percent year over year. If so, this would be the fastest growth, adjusted for inflation, since the recovery began. Housing is still tepid, with more sales of homes coming from bank resales of homes repossessed in the recession. Homebuilder sales are a smaller percent of the market than bank resales. It will take time, but once this bank overhang is gone, a recovery in housing will gain traction. Household debt has dropped sharply. Another positive sign is that debt service for households is now down to less than 10 percent of income, from 13 percent before the recession hit.

All in all, signs point to a continued, albeit slow, recovery. We need more jobs to fuel the recovery. Government policies have not been favorable for job creation, and that tendency is not likely to change soon.

The long-stalled keystone pipeline would add thousands of jobs and billions of dollars in investment in the U.S. However, one administration proposal now before Congress would cost 500,000 jobs, according to government sources. New restrictions on coal production will cost thousands of jobs in already depressed West Virginia. And according to IHS Consulting, which consults to the oil and gas industry, limitations on oil exports are reducing the U.S. production of oil by one million barrels per day, costing one million jobs by 2018, and keeping gas prices at the pump modestly higher.

We will not have a robust recovery until policies change.

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