Infomail

May 5, 2014

Sell in May and Go Away? (Revisited)
(2014 Thus Far is The Inverse of 2013)

"*Success is more a function of consistent common sense than it is of genius*"
An Wang, Chinese American Inventor

Typical this time of year are the cries of "Sell in May." Compound that with the fact that markets have not had a 10% correction in 31 months, and you get a raised level of anxiousness.

The last four Mays have indeed been sloppy for various reasons:

Month	Reason	TSX	S&P500
May 2010	Greece	(4.2%)	(8.20%)
May 2011	Ireland/Europe	(4.2%)	(1.35%)
May 2012	Portugal/Spain	(6.6%)	(6.27%)
May 2013	US Fed Reserve Tapering	1.95%	2.08%

We enter May 2014 with the US indices just a fraction off all time highs, yet I don't see the confetti and celebration usually seen at highs. In fact, what is interesting is how low the enthusiasm is among investors. We hear and read a lot these days how poor the timing is for the Main Street investor, with respect to jumping in at the wrong time with reckless enthusiasm.

Even if more are slowly making their way back, I wouldn't say we are at levels of what Greenspan termed "irrational exuberance." Nay, as the recent survey released on April 24th by the American Association of

Individual Investors (AAII) reflected, investors are anything but "exuberant":

At Historic Market Tops	Bullish	Bearish
Aug 24, 1987	66.0%	6.0%
March 24, 2000	65.7%	20.0%
Jan 3, 2002	51.0%	24.4%
Oct 11, 2007	54.0%	25.7%
Apr 23, 2014	34.5%	26.0%

The fact is, this entire bull run has occurred on meted individual investor enthusiasm and pretty light volume.

At the beginning of 2014, what most magazines forecast as the places to be really have not been, and the laggards of 2013 have been the ones to own.

Everything that was vogue in 2013 has been sold so far in 2014, including US stocks, technology, biotech, social media and Bitcoin as this chart shows:

Asset Class Returns (As of 4/11/14)

Asset Class	Ticker Symbol	2013	2014
Junior Gold Miners	GDXJ	-61%	17.8%
Gold Miners	GDX	-54%	14.6%
REITS	ICF	-1.7%	11.4%
Gold	GLD	-28.3%	9.4%
Emerging Market Bonds	EMB	-7.8%	5.0%
Commodities	DBC	-7.6%	2.4%
US Large Caps	SPY	32.3%	-1.3%
US Small Caps	IWM	38.7%	-4.0%
Biotech	XBI	48.4%	-4.1%
Social Media	SOCL	64.0%	-15.6%
Bitcoin	N/A	537.0%	-43.5%

So now it's been over two years since we've had a big correction in equity markets – the longest stretch since the bull market of the 2000's (which lasted over 1100 days). Currently, at 945 days without a 10% correction, the following shows it could still be a while.

S&P 500 – Trading Days without a 15% Correction

YEAR	NUMBER OF DAYS
1937	515
1946	982
1957	2072
1962	1035
1987	1306
1998	1928
2008	1173
Currently	945

(Source: Cornerstone Macro Economic Apr 8, 2014)

Looking at the last few mid term election years, markets in 2014 seem to be following the historical pattern of a midterm election year, where the market peaks out in late April and bottoms out in September. The bad news is it could be a sloppy summer; the good news is those bottoms have been superb buying opportunities for the next big leg higher.

I am not sure what the catalyst for some weakness could be, but right now the easy guesses are the Ukraine/Russian situations, or negative surprises out of China.

So far, approximately 62% of earnings reported have beat estimates, and only about 11% missing their target. The weather in Q1 had to play havoc with some of those. The US Federal Reserve is tapering, but remains stimulative overall. Fed Chair Yellen continues to express dovish sentiment, recently reiterating the Fed will do all it can to ensure the US recovery remains on track, but that the economy is still not as healthy as it could be.

So bottom line, sure we've had a few 5-6% pullbacks and could get another one any time, maybe even 10-12%. While never fun when they happen, I think one of those right now would be healthy, allow markets to clear the decks out of weak hand speculators and allow real investors to re-load. Many sectors have already had serious pullbacks, most notably in the hot momentum sectors.

Stay patient and stay tuned,

Vito Finucci
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