

May 25, 2018

Rush Zarrabian, CFA
Portfolio Manager
Corbett Road Investment

A RANGE BOUND MARKET

SUMMARY

- The data from MACROCAST™ remains positive and continues to suggest risk of a major bear market is low.
- The market appears to be in consolidation mode. The S&P 500 is currently about halfway between its high and low for the year. This is not an unusual pattern; historically the market can lack trend for several months before decisively moving in one direction or the other.
- ‘Sell in May’ articles are written every year, on cue. The best course of action advice we can give is to enjoy them, then forget about them.

THE MARKET REMAINS RANGEBOUND

After a strong start to the year, followed by a sharp correction, the market has remained range bound since mid-February:



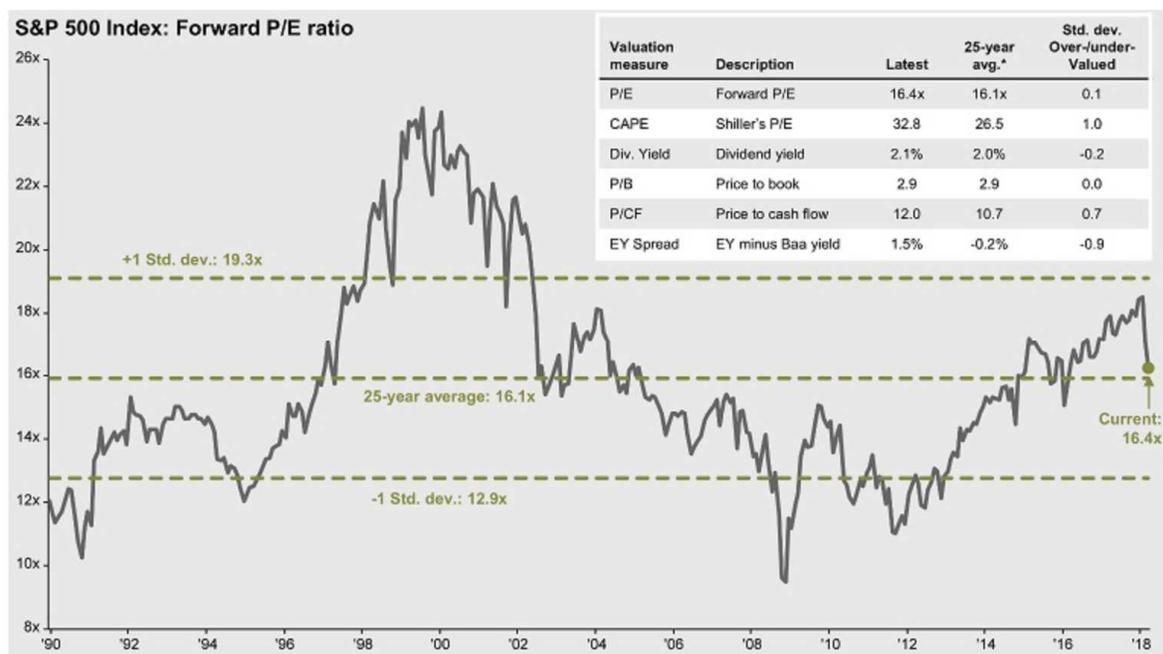
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This is not unusual behavior. Price action often remains range bound, or “consolidates” through time during bull markets. The market can go several months before breaking out in one direction or the other. This was especially common during the last bull market from 2003-2007. The market would often go nowhere for five, six, or seven months.

Based on current MACROCAST™ readings, we expect the market to break out to the upside at some point between now and early fall. We believe the likelihood of a major decline from current levels is minor.

WHAT ABOUT VALUATIONS?

Concerns about the market’s valuation have appeared throughout the entire bull market run. After the recent market consolidation and a continued increase in analyst earnings estimates, the Forward Price/Earnings Ratio is near its 25-year average (data from JP Morgan Asset Management):

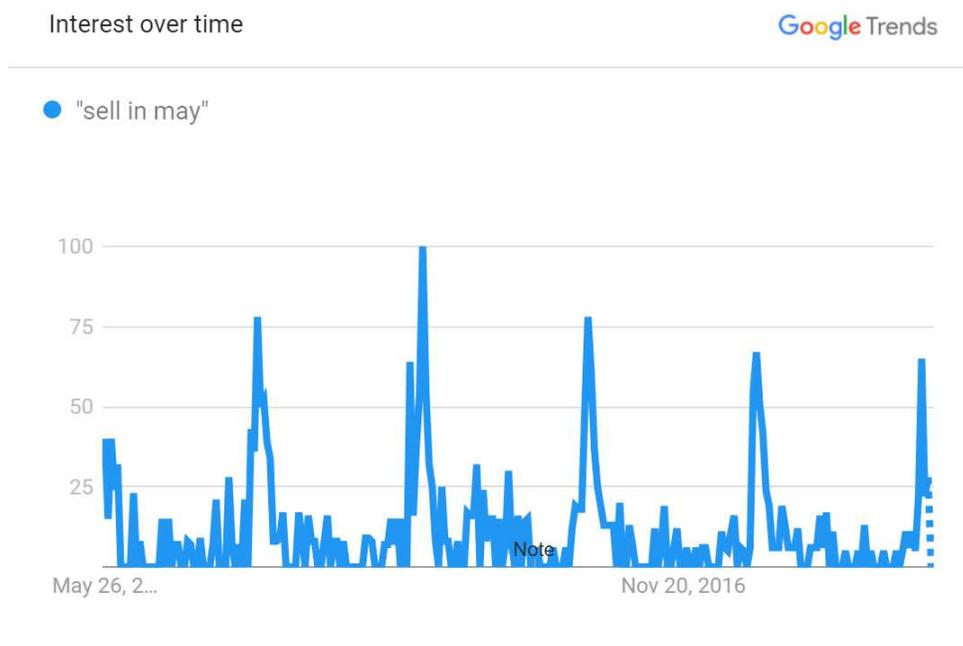


To be clear, we do not believe equities are “cheap” after a 9-year bull market, but valuation remains only a mild concern. We feel that Fed actions and economic data are more important factors right now.

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'SELL IN MAY' IS NOT AN INVESTMENT STRATEGY

Every year around the end of April, you will see an influx of articles that discuss the 'Sell in May' market anomaly that suggests stocks perform significantly worse during the May-October period than the November-April period. The increase in publication matches the interest in the anomaly, with a spike in searches for the term:



Like most market “rules of thumb”, there is an element of truth, but nothing helpful to the investment process.

Here are three reasons why the strategy is not effective:

1. **You would be worse off selling.** The most important reason is the average investor would have fared better doing nothing. It is true that market returns have been stronger November to April than May to October. Since 1950, stocks rose an average of 7% from November to April. But the average return is still a positive 1% during the ‘Sell in May’ period, and the median gains were 2.2%. If you sold in May, you would likely be buying back at higher prices, and this is without taking taxes or transaction costs into consideration.

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2. **There is no consistency in the anomaly.** The ‘Sell in May’ period has been positive 5 of the past 6 years. In 2017, the market was higher by nearly 12% during the period.
3. **Market momentum might be a better signal.** A strong start to the first half of the year seems to be a decent indicator of where stocks will finish. Whenever the S&P 500 has been positive year-to-date at any point during May (as it is this year), it was positive the rest of the year 35 out of 36 times (data from LPL Research).

So, while the ‘Sell in May’ articles may be entertaining, they aren’t a useful tool in helping you reach your financial goals.

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