Sell Stocks in May? Come Back in October?

If you have ever thought of taking the summer off from time spent with your investments, that may not be a bad idea. As it turns out, the warmer months are generally a time when things cool off in the stock market. So however much effort you put in when it's milder, you need to be aware that when school's out, stocks often take a vacation. This is a pattern that's been in place for a very long time.

I recently concluded a study of quarterly changes in the Standard & Poor's 500 Index from 1950 to present. The results strongly support the belief that there are significant seasonal factors. Over this 67-year period, the strongest quarters were October-December and January-March, respectively, with average gains of 3.7% and 2.5%. The April-June and July-October quarters came in with average gains of 1.8% and 0.5%, respectively.

What about recent years?

Over the last 10 years, the numbers have shifted. The average first-quarter gain rose to 3.2% while the fourth-quarter change shrank to zero. That may seem odd, but it's largely due to the disastrous fourth quarter of 2008, in which the S&P index dropped more than 22%. Excluding that plunge, the fourth-quarter average gain for the latest decade comes back up to 2.5%.

Like many other market statistics, they tend to be meaningful over long periods of time. Indeed, results for the two middle quarters were above the historical average for four of the past five years. Is this a sign of things to come? Stay tuned.

When does volatility peak?

While working my way through the numbers, I also took a look at seasonal price fluctuations. Is volatility steady over the course of the year or is there a time when it picks up. It will come as no surprise that the range of price fluctuations is quite similar over the course of the year - - - - with the exception of the third quarter, which has had substantially greater volatility. That appears to be heaviest toward the latter part, i.e., September.

October is the oddball month. That was when the market nosedived way back in 1929. It was also the month of the 1987 crash. Yet October often turns out to be when the market regains its footing and starts to recover. So the weakness that has been seen in the early weeks of the month has been offset by the rebound that followed.

Where are we now? Probably toward the tail end of the post-election rebound. Market valuations are on the rich side and although there has been an accelerated flow of developments, both economic and otherwise, from the nation's capital, it seems overly optimistic to expect that Happy Days Are Here Again will be the theme for the investment markets through the remainder of the year.

The prospect of higher interest rates is quite strong, but hopes for passage of reduced tax legislation seem to have dimmed. In some ways, we have a Goldilocks scenario, but North Korea and other concerns could be disruptive.