HERITAGE CAPITAL LLC

Invest for Tomorrow. Live for Today.™

The month of May begins today. It's supposed to be spring although you wouldn't know it in New England on Monday as folks had on hats, gloves and down jackets. The weather is finally looking up in CT as the forecast calls for 70s and 80s this week. I think the bulls are hoping their forecast heats up this week as it's been cold for stocks of late.

As you know from my blog posts since April 18 I have been much more concerned that the February and April lows could give way to a quick elevator shaft decline towards or below 23,000 on the Dow. It's a scenario I am watching closely. I would feel a whole lot better for the bulls if we saw some confirmation in the form of a day or two where at least 80% of the volume (shares traded) was in stocks advancing. 90% would be even better. This kind of conviction has been sorely missing since the rally began.

Turning to May which was really the point of this update, like January, there are a number of trends that fire off, both short and intermediate-term. Let's review them and give proper attribution.

1 - Today is May 1 which has become one of the most seasonally strong days of the year, more so in magnitude than winning percentage. The odds favor the upside 70% of the time. It's been very rare to see even a .75% down day. (Hat tip Rob Hanna of Quantifiable Edges)

2 - Today is the first day of the month in an ongoing bull market. The previous month closed poorly. 80% of the time, today is an up day with limited downside when the trend doesn't work.

3 - May 1 begins the "Sell in May and go away" (SIMGA) trend that lasts until November 1. In other words, it's the weakest 6 months of the year, averaging a gain of 1.5% versus 7% for the other 6 months. However, since the bull market began, only 2011 saw any weakness greater than 1% so that trend has been somewhat muted.

4 - I tweaked SIMGA to look at just those in midterm election years which has historically been a weak year. That worked tremendously well through 2002 with some real doozies on the downside including double digit declines in 2002, 1990 and 1974. Overall, stocks rallied just 1% since 1950.

5 - I further tweaked SIMGA to only examine the first term of a president's midterm election year which have yielded the weakest of the weak results. 1974 drops off but so do some gains. Overall, it didn't yield much. Stocks averaged a paltry 0.73% since 1950.

6 - Finally, as I was starting to research what happened when stocks were down through April and SIMGA began, Jason Goepfert from Sentimentrader.com published the results so I will just copy his. I wish I could say "great minds think alike", but I wouldn't denigrate him by putting him in my category. When the year was down through April 30, SIMGA was also down by almost 3%.

Does all this even mean anything?

I draw two loose conclusions.

First, in the short-term, today is supposed to be up. If it's not, regardless of what happens with the Fed tomorrow, I think stocks will continue lower and further open the scenario for a full breaks of the 2018 lows.

Second, there is enough of a seasonal tailwind through Halloween to suggest guarded optimism at best. In other words, when our models are not fully positive, it's time to play defense and not be complacent. This is such a far cry from what I have written about 80% of the time since the bull market began 9 years ago.

Now is definitely not the time to be cavalier and and regard every decline as a buying opportunity with an easy recovery period. While I still absolutely do not believe the bull market is over and Dow 27,000 is coming, risk has increased dramatically this year and investors should be on guard.

As always, we will take it one day at a time and assess the evidence. If you have any questions or would like to schedule a meeting or call, please contact the office or click here for my calendar.

REMINDER, if we haven't reviewed your 401K or 403b allocations (accounts not directly managed here), please send me a copy of your March 31 statement for me to review. With my long-term view of the markets and the behavior we saw in Q1, I anticipate at least regular quarterly tweaks for a while.

To Your Financial Success,

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