

Another Wall Street Aphorism Bites the Dust

SELL IN MAY AND GO AWAY! So, how's that going? Pundits have long believed in the market's spring-to-fall seasonality as a tradable pattern. Stock prices have a tendency to reach a peak in May, the thinking goes, and then a trough by November. So beating the game can be as simple as cashing out when the flowers bloom, heading for the Hamptons, and then reinvesting at lower prices when the frost is on the pumpkin. Seriously?

The sell in May admonition has become so mainstream that it was recently featured in a research paper published in the *Financial Analysts Journal*. The academics concluded that "the adage sell in May and go away remains good investment advice."

Oops! Not this year. At least, not so far. From May Day to mid-September, the S&P 500 rallied almost 8%; a late September/early October selloff still left the market 6% higher than May Day levels. There were three small pullbacks during the market's climb since May 1 — the most recent being the smallest in magnitude — pretty astonishing given the prospect of a U.S. government default. For a while it looked like we might have been headed for an October Massacre. But just the suggestion that the politicians might be ready to negotiate like grown-ups unleashed a wave of buying that wiped out most of the fall selloff.

It seems clear that something is at work that is enabling equity prices to defy expectations based on seasonality. That something in my view is easy money. One of the few Wall Street aphorisms that I have found over the years to be worth heeding is "Don't fight the Fed." So long as the central bank has its pedal to the metal, equity prices will remain buoyant and short-selling will remain problematic.

Most likely, the shenanigans in D.C. will delay the commencement of the much feared "taper" and will probably postpone the end of ZIRP one to two quarters, and extend the cyclical rise in stock prices as well. Although the easy money policies have not brought the jobless rate down as much as had been hoped, they have left the world awash in liquidity. Corporate profits have soared and [dividend growth](#) has been averaging in the mid-teens.

Meanwhile, long rates have risen and, we think, will continue to rise up into the 4-5% range. But with short rates anchored at zero, the yield curve has steepened and will most likely steepen further. We believe the steepening curve will be bullish for stocks and for the shares of financial institutions in particular.



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